

**PRIME ACADEMY  
33RD SESSION PROGRESS TEST – FINANCIAL REPORTING**

No. of Pages: 7

Total Marks: 75  
Time Allowed: 2Hrs

**PART - A**

1. Which of the following are basic concepts in accounting
  - a. Going concern
  - b. Accrual
  - c. Consistency
  - d. All of the above
  
2. Machinery spares which are not specific to a particular fixed assets should be treated as
  - a. Inventories and charged to Profit and Loss a/c
  - b. Capitalized as a separate fixed asset
  - c. Treated as Capital work in progress
  - d. Any of the above depending on the value of the asset
  
3. Interest and other borrowing cost for the purpose of inventory valuation are
  - a. Usually not included
  - b. Usually included
  - c. Included only if the inventories are manufactured
  - d. Included only if the amount is huge
  
4. Allocation of fixed production overheads for inventory valuation
  - a. Not considered. Only variable costs are considered
  - b. Allocated based on the normal capacity of production
  - c. Allocated based on actual production
  - d. Allocated based on Installed capacity
  
5. Retrospective effect should be given for depreciation for change in
  - a. Historic cost
  - b. Method of depreciation
  - c. Expected useful life
  - d. Both b and c
  
6. Revision of salaries with retrospective effect for the past two years is
  - a. Extra-ordinary item
  - b. Prior period item
  - c. Treated as below line item
  - d. Ordinary item
  
7. Before the date of balance sheet due to destruction of factory by fire. One of the debtors has become insolvent due to this after the date of balance sheet. This is a(n)
  - a. Adjusting item
  - b. Non-adjusting item

- c. Both the above
  - d. None of the above
8. The theft in the previous year was detected only in the current year. This is a(n)
- a. Extra-ordinary item
  - b. Prior period item
  - c. Treated as below line item
  - d. Ordinary item
9. A contract was entered for 10 lacs. Cost incurred so far is 8 lacs. The company expects 3 lacs more to be incurred. Down payment was received for 6 lacs
- a. Provide loss for 1 lac
  - b. Treat 6 lacs as income
  - c. Treat just 8 lacs as expense
  - d. None of the above
10. Loss of 4 lacs incurred in the current year can be adjusted against
- a. Revaluation reserve
  - b. General Reserve
  - c. Statutory reserve
  - d. Any of the above.
11. Government grant received for the purchase of Capital asset should be
- a. Credited to Profit and Loss A/c
  - b. Credit to the cost of the asset
  - c. Treated as deferred income
  - d. Either b or c
12. A sale was made for 9 lacs out of which the management feels that 5 lacs would not be recoverable. The adjustment as per AS 9 should be
- a. Adjust to Sales
  - b. Create provision
  - c. Either a or b
  - d. No action until the debt becomes bad
13. Sale proceeds of right renounced in the market is
- a. Credited to P&L a/c
  - b. Credited to the cost of the original shares
  - c. Credited to the Capital reserve account
  - d. Any of the above depending on the value
14. A machine was purchased jointly by two companies. At the date of their balance sheet, how should the disclosure be made
- a. Only 50% of the book value to be disclosed
  - b. Full value of the machinery to be disclosed with other party as 50%
  - c. No disclosure to be made since machinery is not wholly owned
  - d. Either a or b

15. In case of integral foreign operations, cost of fixed asset should be recognized at
  - a. Apply rate on date of purchase
  - b. Apply closing rate on which balance sheet is drawn
  - c. Apply opening rate
  - d. Apply the average rate of closing and opening
  
16. A change in method of depreciation can be provided only if
  - a. required by statute,
  - b. for compliance with an accounting standard or
  - c. for appropriate presentation of the financial statements.
  - d. All of the above
  
17. Asset given free of cost is recorded in the books at
  - a. Nominal value
  - b. Zero value
  - c. Not recorded
  - d. Either b or c
  
18. Foreign Branch operations functioning independently from the parent, the functional currency will be:
  - a. Same as parent
  - b. Determined using the guidance for determining the entity's functional currency.
  - c. That of the country of incorporation
  - d. None of the above
  
19. Investment in properties should be treated as
  - a. Fixed assets
  - b. Current investments
  - c. Long term investments
  - d. Either a or c
  
20. Grants when refundable should be shown as
  - a. Prior period item
  - b. Ordinary item
  - c. Extra ordinary item
  - d. Either b or c
  
21. Non-cash consideration on amalgamation should be accounted at
  - a. Cost
  - b. Book value
  - c. Average of a and b
  - d. Fair value
  
22. As per AS 11 loss on account of foreign exchange on purchase of fixed assets should be
  - a. Debited to asset a/c
  - b. Treated as deferred revenue
  - c. Debited to P&L a/c
  - d. Either a or b

23. Near future as per AS 21 would mean
- Not more than 12 months
  - Not more than 6 months
  - Not more than 18 months
  - 6 to 12 months
24. If two companies have a same subsidiary, then CFS should be prepared by
- The company which first becomes the holding company
  - Both the company
  - Two companies cannot have a same subsidiary
  - The company which becomes the holding company latter
25. Under consignment sales, revenue is recognized:
- When goods are sold to third party
  - On sending the consignment
  - When third party sells
  - Either a or b

(25x1=25 Marks)

**PART - B**

**Question 1 is Compulsory. Any 3 questions from the rest**

1. The Balance Sheet of three companies X Ltd and Y Ltd. as at 31<sup>st</sup> December, 2010 are given below:

Liabilities	X Ltd. ₹	Y Ltd. ₹
6% Preference shares of 10 each		1,60,000
Equity shares of ₹10 each	6,00,000	2,00,000
Reserves	1,00,000	80,000
Sundry Creditors	2,94,000	1,25,000
Profit and loss A/c	2,00,000	90,000
6% debentures of 10 each	-	40,000
Interest on debentures	-	2400
Proposed dividend		
a) Preference Shares		9,600
b) Equity Shares	60,000	20,000
<b>TOTAL</b>	<b>12,54,000</b>	<b>7,27,000</b>
Assets	X Ltd. ₹	Y Ltd. ₹
Fixed Assets	5,00,000	4,40,000
15,000 equity shares in Y Ltd	3,30,000	-
12,000 Preference shares in Y Ltd	1,20,000	-
1,000 6% debentures in Y Ltd	10,000	
Current Assets	2,94,000	2,87,000
<b>Total</b>	<b>12,54,000</b>	<b>7,27,000</b>

Other Information:

- (a) The General Reserve of Y Ltd as on 31.3.2009 was ₹ 80,000
- (b) X Ltd acquired the shares in Y Ltd on 31.3.2009
- (c) The balance of Profit & Loss a/c of Y Ltd is made up as follows:

	₹
Balance as on 31.3.2009	56,000
Net Profit for the year ended 31.3.2010	63,600
	-----
	1,19,600
Less: Provision for proposed dividend	(29,600)
	-----
	90,000
	-----

- (d) The balance of P&L A/c of Y Ltd as on 31.3.2009 is after providing for preference dividend of ₹ 9,600 and proposed equity dividend of ₹10,000 both of which were subsequently paid and credited to profit and loss account of X Ltd
- (e) No entries have been made in the books of X Ltd for debentures interest due from or proposed dividend of Y Ltd for the year ended on 31.3.2010
- (f) Y Ltd has issued fully paid bonus shares of ₹40,000 on 31.3.10 among the existing shareholder by drawing from General reserve. The transaction has not been given effect to in the books of Y Ltd

**Prepare:**

Consolidated Balance Sheet of the group as at 31<sup>st</sup> December, 2010. Working should be part of the answer. Disclose minority interest as per AS 21. **(20 Marks)**

2. A Ltd leased a machinery to B Ltd on the following terms:

Fair value of Machinery	20 lacs
Lease term	5 years
Lease rental per annum	5 lacs
Guaranteed residual value	1 lacs
Expected residual value	2 lacs
Internal rate of return	15%

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

**(10 Marks)**

3.

- (a) X Ltd was making provisions for non-moving stocks on no issues for the last 12 months upto 31.03.09. Based on technical evaluation the company wants to make provisions during the year 31.03.10.

Total value of stock = ₹150 lacs

Provisions required based on 12 months issue ₹4 lacs

Provisions required based on technical evaluation ₹3.2 lacs

Does this amount to change in accounting policy? Can the company change the method of provision? **(4 Marks)**

- (b) An unquoted long term investment is carried in the books at its cost ₹5 lacs. The published accounts of the unlisted company received in May 2009 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹80,000. How do you deal with this situation? **(3 Marks)**

- (c) Explain Extra-ordinary item as per AS 5 with an example. **(3 Marks)**

4.

- (a) The chief accountant of sports lid gives the following data with respect to its segments. He is of the opinion that segments "M" and "N" should be reported as per AS 17. Discuss

Particulars	Rs in lakhs						Total
	M	N	O	P	Q	R	
Segments Assets	40	80	30	20	20	10	200
Segment Results	50	-190	10	10	-10	30	-100
Segment Revenue	300	620	80	60	80	60	1,200

(4 Marks)

- (b) 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 substandard product over the next one year to the huge investment involved.

In this background advise the company for capitalization of the project cost. (6 Marks)

5. On 1<sup>st</sup> June 2009, an Indian company sold goods to an American company at an invoice price of USD 20,000 when the sport market rate was ₹48.10. Payment was to be made in three months time ie 1<sup>st</sup> September 2009. To avoid risk of foreign exchange fluctuations the Indian exporter acquired a forward contract to sell USD 20,000 at ₹47.90 per USD on 1<sup>st</sup> September 2009. The Indian company's accounting year ended on 31<sup>st</sup> July 2009 and the sport rate on that day was ₹47.20. The sport rate on 1<sup>st</sup> September 2009 was ₹50.

Show what accounting entries will have to be made in the books of Indian exporter

(10 Marks)

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33<sup>RD</sup> SESSION PROGRESS TEST - FINANCIAL REPORTING  
SUGGESTED ANSWERS  
PART - A

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

Part - B

1. Consolidated Financial Statement of X Ltd its subsidiary Y Ltd as on 31.03.10

Liabilities	Amount ₹	Assets	Amount ₹
Share capital	600,000	Goodwill (WN 6)	63,300
General Reserve (WN 8)	100,000	Fixed Assets	940,000
Profit and Loss (WN 8)	233,600	(5,00,000+4,40,000)	
Minority Interest (WN 5)	139,900	Current assets	
6% Debentures of ₹ 10 each (40,000-10,000)	30,000	(2,94,000 + 2,78,000)	581,000
Debenture interest payable (2,400-600)	1,800		
Sundry Creditors (2,94,000-1,25,000)	419,000		
Proposed Dividend	60,000		
	<u>1,584,300</u>		<u>1,584,300</u>

WN 2

Share holding pattern

	X Ltd	Minority
Equity shares	75	25
Preference Shares	75	25

WN 3

Analysis of profits

(a) General reserve

Closing Balance ₹80,000

Opening balance	80,000	Current year	Nil
Less: For Bonus Shares	(40,000)		
	<u>40,000</u>		

(b) Profit and loss account

Closing Balance ₹90,000

Opening balance	56,000	Current year	63,600
		Less: Dividend	(29,600)
			<u>34,000</u>

WN 4	Appropriation of profits		
(a)	Particulars	Pre acquisition ₹	Post acquisitions ₹
	General reserve	40,000	-
	Profit & Loss a/c	56,000	34,000
	Total	96,000	34,000
	X' share	72,000	25,500
	Minority interest	24,000	8,500

WN5	Minority Interest	
	Particulars	Amount ₹
	Share Capital	50,000
	Bonus Shares	10,000
	Capital profit	24,000
	Revenue Profit	8,500
	Proposed Dividend	7,400
	Preference Share Capital	40,000
		<hr/>
		139,900

WN 6	Cost of capital	Amount ₹	Amount ₹
	Cost of investments		
	Amount invested	450,000	
	Pre-acquisition dividend*	(14,700)	
		<hr/>	435,300
	Net assets		
	Share Capital	150,000	
	Capital profit	72,000	
	Bonus Shares	30,000	
	Preference Share Capital	120,000	(372,000)
		<hr/>	<hr/>
			63,300
			<hr/>
	* Dividend for 2009		
	- on equity shares	7,500	
	on preference shares	7,200	
		<hr/>	
		14,700	
		<hr/>	

**WN 8**

**Analysis of profits**

	General Reserve ₹	Profit and loss a/c ₹
Balance in X Ltd	100,000	200,000
Shares of profit of Y Ltd		25,500
Debenture interest		600
Pre-acquisition dividend		(14,700)
Post acquisition profits		22,200
	100,000	233,600

**2. Present value of minimum lease payments (MLP) and unguaranteed residual value (URV)**

Year	MLP inclusive of URV	IRR	PV	
1	500,000	0.8696	434,800	
2	500,000	0.7561	378,050	
3	500,000	0.6575	328,750	
4	500,000	0.5718	285,900	
5	500,000	0.4972	248,600	
6	100,000	0.4972	49,720	
	(Guaranteed RV)		1,725,820	(i)
	100,000	0.4972	49,720	(ii)
	(URV)		1,775,540	(i) + (ii)
	Unearned financial income		= ₹ 27,00,000 - 17,75,540	
			924,460	

**Journal entries in the books of B Ltd**

	Debit ₹	Credit ₹
<i>At the inception of the lease</i>		
Machinery account                      Dr.	1,725,820	
To A Ltd A/c		1,725,820
(Being lease of machinery recorded at present value of MLP)		
<i>At the end of first year of lease</i>		
Finance charges a/c (Refer WN)	258,873	
To A Ltd A/c		258,873
(Being the finance charges for the first year due)		
A Ltd's a/c                                  Dr.	500,000	

To Banc a/c			500,000
(Being lease rent paid to the lessor)			
Depreciation a/c	Dr.	172,582	
To Machinery			172,582
(Being depreciation provided on SLM basis)			
Profit & Loss a/c	Dr.	431,455	
To Depreciation a/c			172,582
To Finance charges			258,873
(Being the depreciation and finance charges taken to P&L a/c)			

### Working note

#### Finance charges

Outstanding liability	Lease rent	Finance Charge	Reduction in liability	Outstanding liability
₹	₹	₹	₹	₹
1,725,820	500,000	258,873	241,127	1,484,693
1,484,693	500,000	222,704	277,296	1,207,397
1,207,397	500,000	181,110	318,890	888,507
888,507	500,000	133,276	366,724	521,783
521,783	500,000	78,276	521,783	-

3. (a) The decision of making provision for non-moving stocks on the basis of technical evaluation does not amount to change in accounting policy as per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies". The method of estimating the amount of provision may be changed, in case, a more prudent estimate can be made by adopting the changed method

In the given case, considering the total value of stocks, the change in the amount of required provision of non-moving stocks from ₹4.0 lakhs to ₹3.20 lakhs is also not material. The disclosure can be made for such change by way of notes to the accounts in the financial statements of XY Ltd. for the year ending on 31.03.09, in the following manner:

"The company has provided for non-moving stocks on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end, the net assets would have been higher by ₹ 0.80 lakhs".

- (b) Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On this basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ₹80,000 in the financial statements for the year ended 31st March, 2009

(c) Extraordinary items are those income or expense that arise from events or transaction that are clearly distinct from ordinary activities and therefore are not expected to recur frequently or regularly

Some of the examples are

1. Losses due to natural disasters like floods or earthquakes
2. Appropriation of assets by the State

4. (a) As per AS 17 Segment Reporting, a business segment or geographical segment should be identified as a reportable segment if:
- (i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
  - (ii) Its segment result whether profit or loss is 10% or more of:
    1. The combined result of all segments in profit; or
    2. The combined result of all segments in loss, whichever is greater in absolute amount; or
  - (iii) Its segment assets are 10% or more of the total assets of all segments.

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

- (a) On the basis of turnover criteria segments M and N are reportable segments
- (b) On the basis of the result criteria, segments M, N and R are reportable segments (since their results in absolute amount is 10% or more of ₹ 200 lakhs).
- (c) On the basis of asset criteria, all segments except R are reportable segments.  
Since all the segments are covered in at least one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17. Hence, the opinion of chief accountant

- (b) As per provisions of AS 10 'Accounting for Fixed Assets', expenditure incurred on startup and commissioning of the project, including the expenditure incurred on test runs and experimental production, is usually capitalized as an indirect element of the construction cost. However, the expenditure incurred after the plant has begun commercial production i.e., production intended for sale or captive consumption, is not capitalized and is treated as revenue expenditure even though the contract may stipulate that the plant will not be finally taken over until after the satisfactory completion of the guarantee period. In the present case, the company did stop production even if the output was not of the desired quality, and continued the sub-standard production due to huge investment involved in the project. Capitalization should cease at the end of the trial run, since the cut-off date would be the date when the trial run was completed.

5.

			Debit ₹	Credit ₹
01.06.09	Sundry Debtors a/c      Dr To Sales		962,000	962,000
	(Being sales to American company at USD 20,000 @ 48.10 per USD)			
	Forward contract receivable (INR) a/c      Dr		958,000	
	Deferred discount a/c      Dr		4,000	
	To Forward contract payable (USD)			962,000
	(Being 20,000 USD sold forward at ₹ 47.90 per USD)			
31.07.09	Forex Loss a.c      Dr		18,000	
	To Sundry Debtors			18,000
	(Being forex loss on sundry debtors booked)			
	Debtors a/c      Dr		2,667	
	To Deferred discount a/c			2,667
	(Being proportionate discount charged as expense ie ₹ 4,000 x 2/3)			
01.09.09	Discount a/c      Dr		1,333	
	To Deferred discount a/c			1,333
	(Being balance discount charged as expense ie ₹ 4,000 - 2,667)			
	Bank (USD) a/c      Dr		1,000,000	
	To Sundry Debtors a/c			944,000
	To Forex gain a/c			56,000
	(Being debtors realised in USD)			
	Forward contract payable (USD) a/c      Dr		944,000	
	Forex Loss A/c      Dr		56,000	
	To Bank (USD)			1,000,000
	(Being USD delivered under forward contract)			
	Bank a/c      Dr		958,000	
	To Forward contract receivable (INR) a/c			958,000
	(Being Rupees received under forward contract settlement)			

PRIME ACADEMY  
33<sup>RD</sup> SESSION PROGRESS TEST – STRATEGIC FINANCIAL MANAGEMENT

No. of pages – 6

Total Marks – 75  
Time allowed – 2 Hours

PART – A

1. M Ltd. earns ₹6 per share having capitalization rate of 10% and has a return on investment at the rate of 20%. According to Walter's model, what should be the price per share at 30% dividend payout?
  - a. ₹100
  - b. ₹102
  - c. ₹105
  - d. ₹125
  
2. The current market price after dividend distribution at the rate of 20% p.a having a paid up share capital of ₹50 lakhs of ₹10 each. Annual growth rate in dividend expected is 5%. Expected rate of return on its equity capital is 15%. Calculate Market price per share based on dividend growth model.
  - a. 12%
  - b. 14%
  - c. 18%
  - d. 22%
  
3. What is the probability if NPV in a project will be zero, if the estimated NPV and SD were ₹2400 and ₹4000 respectively?
  - a. 22.57%
  - b. 27.43%
  - c. 24.83%
  - d. 24%
  
4. \_\_\_\_\_ Model assumes that the firm is all equity and has no debt?
  - a. Walter model
  - b. Lintner model
  - c. Gordon model
  - d. MM model
  
5. \_\_\_\_\_ analysis is also called as "what if analysis"
  - a. Simulation analysis
  - b. Scenario analysis
  - c. Sensitivity analysis
  - d. Decision tree analysis
  
6. If a stock pays ₹5 dividend this year, and the dividend has been growing 8% annually then what will be the price of the stock next year, assuming a required rate of return of 10%. What is next year's stock price?
  - a. ₹250
  - b. ₹260
  - c. ₹170
  - d. ₹270

7. What is the current year stock price in the above question?
- ₹50
  - ₹40
  - ₹80
  - ₹100
8. Certainty equivalent coefficients are normally
- Greater than 0
  - Greater than 1
  - Less than 0
  - Less than 1
9. The \_\_\_\_\_ model assumes that discount rate is greater than growth rate
- Gordon model
  - MM model
  - Walter model
  - Lintner model
10. Current stock price is ₹100, Next year's dividend is ₹4, and Capitalization rate is 15%. Retention rate is 50%. The implied growth rate is \_\_\_\_\_
- 16%
  - 20%
  - 15%
  - 18%
11. What is implied return on equity in the above question?
- 25%
  - 40%
  - 30%
  - 50%
12. \_\_\_\_\_ model assumes that dividend always stays same
- Zero-growth rate model
  - MM model
  - Constant-growth rate model
  - Variable-growth rate model
13. The weighted marginal cost of capital is 10%. The risk premium is 2%. Corporate tax is 30%. Cost of equity is 12%. What is RADR?
- 12.20%
  - 22.40%
  - 21.46%
  - 14.32%
14. \_\_\_\_\_ model assumes that there are no taxes
- Walter model
  - Lintner model

- c. Gordon model
  - d. MM model
15. The current market price per share of X Ltd is ₹120. Contemplated dividend per share is ₹6.4. Capitalisation rate is 9.6%. What is market price of share when dividend is declared using MM approach:
- a. ₹140
  - b. ₹125
  - c. ₹130
  - d. ₹145
16. What is market price of share in the above question when dividend is not declared?
- a. ₹112
  - b. ₹132
  - c. ₹140
  - d. ₹127
17. The initial investment in a project is ₹110 lakhs and the expected free cash flows to be generated from the project is ₹20 lakhs for 5 years. What is the NPV of the project? The minimum required rate of return is 15%.
- a. 4296000
  - b. 6704000
  - c. 3790448
  - d. 7209552
18. The second step in decision tree analysis is:
- a. Drawing a decision tree
  - b. Define investment
  - c. Evaluate alternatives
  - d. Identify alternatives
19. XYZ Ltd's stock trades at ₹90 per share. The company is contemplating a 3 for 2 split. What will be the stock price post split?
- a. ₹50
  - b. ₹35
  - c. ₹60
  - d. ₹45
20. A company has 5 lakh equity shares. The current market price is ₹200. Company wants to buy back 1 lakh shares. What should be the buyback price?
- a. ₹250
  - b. ₹500
  - c. ₹175
  - d. ₹325
21. Sensitivity analysis helps in estimating probability distribution of different outcomes.
- a. True
  - b. False

- c. Partly true
- d. None of the above

22. A project has an estimated NPV of ₹5000. The Standard deviation of the possible NPV is 3000. Assuming a normal distribution of probabilities, Compute Z value.

- a. 1.67
- b. -1.67
- c. 0.6
- d. -0.6

23. The minimum demand supply gap is:

- a. Min demand-Max supply
- b. Min demand-Min supply
- c. Likely demand - likely supply
- d. Max demand - Likely supply

24. Market price is highest when dividend payout is \_\_\_\_\_

- a. Lower
- b. Higher
- c. Equal
- d. None of the above

25. What is the next year's dividend per share when the payout ratio is 0.7, adjustment rate is 0.6, current year DPS is ₹1.50 and Next year EPS is ₹4.00.

- a. 1.50
- b. 2.28
- c. 1.30
- d. 4.00

(25x1=25 Marks)

## PART- B

1. Sharma Ltd. belongs to a risk class of which the appropriate capitalisation rate is 10%. It currently has 1,00,000 shares selling at ₹100 each. The firm is contemplating declaration of a dividend of ₹6 per share at the end of the current fiscal year which has just begun. Answer the following questions based Modigliani Miller Model and assumption of no taxes.

- (i) What will be the price of the shares at the end of the year if a dividend is not declared?
- (ii) What will be the price if dividend is declared?
- (iii) Assuming that the firms' pays dividend, has net income of ₹10 Lakhs and makes new investments of ₹20 lakhs during the period, how many new shares must be issued?

(10 marks)

2. The initial investment outlay for a capital investment project consists of ₹100 lakhs for Plant & Machinery and ₹40 lakhs for Working Capital. Other details are summarized below:

Selling price	: 1 lakh units of output per year for years 1 to 5
Selling price	: ₹120 per unit of output
Variable cost	: ₹60 per unit of output
Fixed overheads (excl. depreciation)	: ₹15 lakhs per year for years 1 to 5
Rate of depreciation	: 25% on Plant & machinery (WDV method)
Salvage value of Plant	: equal to the WDV at the end of year 5
Tax rate	: 40%
Time horizon	: 5 yrs
Post-tax cut off rate	: 12%

**Required:**

- (i) Indicate the financial viability of the project by calculating NPV

(10 marks)

3. From the following information supplied to you, determine the theoretical market value of equity shares of a company as per Walter's model:

- (i) Earnings of the company ₹10,00,000
- (ii) Dividend paid ₹6,00,000
- (iii) Number of shares outstanding 2,00,000
- (iv) Price earnings ratio 8
- (v) Rate of return on investment 15%

Are you satisfied with the current dividend policy of the company? If not, what should be the optimal dividend payout ratio in this case?

(10 marks)

4. The following particulars are furnished to you for calculating the present value of market price per Share (PO), by using Gordon's growth model if retention ratio (b) is:

- a) 0.1
- b) 0.7

Growth firm	Normal firm	Declining firm
$r > k$	$r = k$	$r < k$
$r = .15$	$r = .11$	$r = .08$
$k = .10$	$k = .11$	$k = .10$
$E = ₹15$	$E = ₹11$	$E = ₹10$

Comment on the results of your workings.

(10 marks)

5. A firm has an investment proposal, requiring an outlay of ₹40,000. The investment proposal is expected to have 2 years' economic life with no salvage value. In year 1, there is a 0.4 probability that cash inflow after tax will be ₹25,000 and 0.6 probability that cash inflow after tax will be ₹30,000. The probabilities assigned to cash inflows after tax for the year II are as follows:

Cash inflow year I	₹25,000		₹30,000	
		Probability		Probability
Cash inflow year II	₹12,000	0.2	₹20,000	0.4
	₹16,000	0.3	₹25,000	0.5
	₹22,000	0.5	₹30,000	0.1

The firm uses a 10% discount rate for this type of investment.

**Required:**

- Construct a decision tree for the proposed investment project.
- What is the net present value of each path at 10% discount rate?  
(10% discount factor 1 year -0.909; 2 year - 0.826)

(10 marks)

PRIME ACADEMY  
33<sup>RD</sup> SESSION PROGRESS TEST – STRATEGIC FINANCIAL MANAGEMENT  
SUGGESTED ANSWERS

PART – A

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

## PART B

1. (i) Price of Share of Sharma Ltd, if dividend is not declared:

$$P_0 = \frac{P_1 + D_1}{1 + K_e}$$

Where P<sub>1</sub> = Market price of a share at the end of the period 1  
 P<sub>0</sub> = Prevailing market price of share  
 K<sub>e</sub> = Cost of equity capital  
 D<sub>1</sub> = Dividend to be received at the end of period 1

$$100 = \frac{P_1 + 0}{1.10}$$

$$P_1 = ₹110$$

(ii) Price of Share of Sharma Ltd, if dividend is declared:

$$P_0 = \frac{P_1 + D_1}{1 + K_e}$$

$$100 = \frac{P_1 + 0}{1.10}$$

$$\text{Or } P_1 = 110 - 6 = ₹104$$

(iii) Number of new shares to be issued

$$\Delta n = \frac{I - (E - nD_1)}{P_1}$$

Δn = Change in number of shares outstanding during the period  
 I = Total investment requirement  
 E = Earning of the firm during the period  
 nD<sub>1</sub> = Total Dividend paid  
 (E - nD<sub>1</sub>) = Retained Earnings

$$\Delta n = \frac{20,00,000 - (10,00,000 - 6,00,000)}{104}$$

$$= \frac{16,00,000}{104}$$

*Number of new shares = 15,835 Shares*

## 2. WN. 1 Depreciation Schedule

	Year 1 ₹	Year 2 ₹	Year 3 ₹	Year 4 ₹	Year 5 ₹
Opening Plant & Machinery	100	75	56.25	42.19	31.64
Annual Depreciation	<u>25</u>	<u>18.75</u>	<u>14.06</u>	<u>10.55</u>	<u>7.91</u>
Closing Plant & Machinery	75	56.25	42.19	31.64	23.73

## WN.2 Profit before depreciation and Tax per Year

Details	₹in lakhs
Total Contribution per year [₹120 – ₹60]	60
Fixed Overheads, other than depreciation, per year	<u>15</u>
Profit before depreciation and Tax per Year	45

## Computation of P.V. of net cash inflow

End of year	1 ₹	2 ₹	3 ₹	4 ₹	5 ₹
PBDT	45	45	45	45	45
Depreciation	25	18.75	14.06	10.55	7.91
PBT	20	26.25	30.94	34.45	37.09
Tax @ 40%	8	10.5	12.38	13.78	14.84
PAT	12	15.75	18.56	20.67	22.25
Depreciation	25	18.75	14.06	10.55	7.91
Salvage value of P&M	-	-	-	-	23.73
Decrease in Working capital	-	-	-	-	40
Net cash inflow	37	34.50	32.62	31.22	93.89
P.V. factor @ 12%	0.893	0.797	0.712	0.636	0.567
P.V. of Net cash inflow	<u>33.04</u>	<u>27.50</u>	<u>23.23</u>	<u>19.86</u>	<u>53.24</u>

NPV = P.V. of Net cash inflow – Initial investment outlay

= ₹156.87 Lakhs – ₹140 lakhs

*NPV = ₹16.87 lakhs*

3.

$$P = \frac{D + \frac{r}{k_e}(E - D)}{K_e}$$

Where	P	=	Price per equity share;
	D	=	Dividends per share;
	E	=	Earnings per share
	(E-D)	=	Retained earnings per share;
	r	=	Internal rate of return on investments
	Ke	=	Cost of capital

Substituting the information given in the question in the above equation, we get

$$\frac{\text{₹}3 + 15\% (\text{₹}5 - \text{Rs.}3)}{12.5\%}$$
$$= \frac{\quad}{12.5\%}$$

$$\frac{\text{₹}3 + .15 \times \text{Rs.}2}{.125}$$
$$= \frac{\quad}{.125}$$

$$P = \frac{\text{₹}3 + \text{Rs.}2.4}{0.125}$$
$$= \frac{\text{₹}5.4}{0.125} = \text{₹}43.20$$

Hence, theoretical market value of equity shares of the company according to James. E. Walter Formula is ₹43.20

#### Working notes

$$(i) \text{ Earnings per share (E)} = \frac{\text{Number of shares outstanding}}{\text{Total Earnings}}$$
$$= \frac{2,00,000}{10,00,000}$$
$$EPS = \text{₹}5$$

$$(ii) \text{ Dividend per share (D)} = \frac{\text{Number of shares outstanding}}{\text{Dividend paid}}$$

$$= \frac{2,00,000}{6,00,000}$$

$$DPS = ₹3$$

(iii) Cost of Capital  $k_e$  is the reciprocal of  $P/E = 1/8 = 12.5\%$ .

$$(iv) (E-D) = (₹5 - ₹3) = ₹2$$

We are not satisfied with the existing dividend policy of the company because in this case [ $r(15\%)$   $k_e(12.5\%)$ ] the firm is able to earn more than what the shareholders could get by re-investing, if earnings are paid out to them. The optimal dividend payout ratio, for the company should be 0%.

4.

$$\text{Gordon Model} = \frac{E_1 (1 - b)}{K - br}$$

Where,  $E_1$  = Earnings per share  
 $b$  = retention ratio  
 $k$  = Cost of Capital  
 $br$  = growth ( $g$ )  
 $p_0$  = Market Price per share.

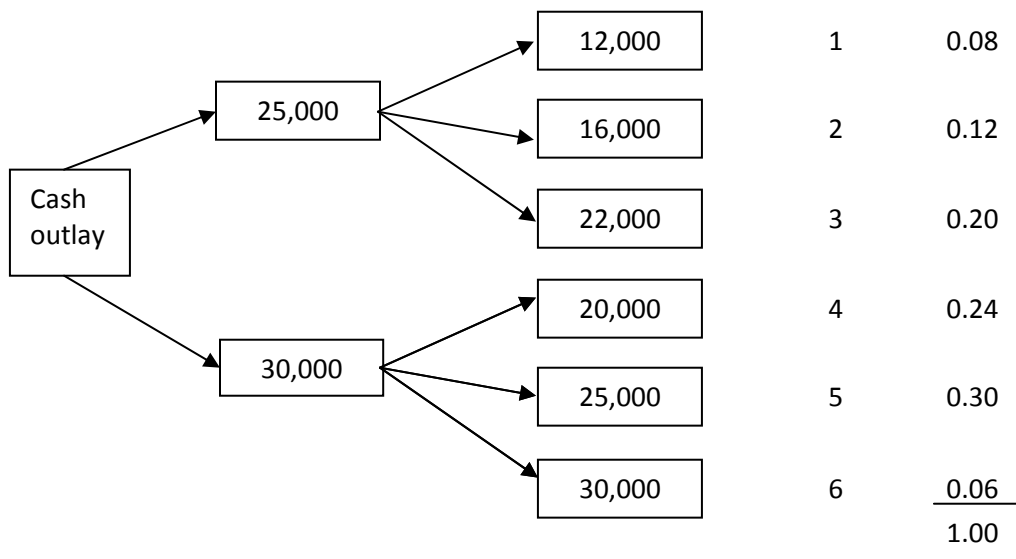
a)  $b = 0.1$  ; payment ratio = 0.9

	Growth firm	Normal firm	Declining firm
$br$	$0.1 \times 0.15 = 0.015$	$0.1 \times 0.11 = 0.011$	$0.1 \times 0.08 = 0.008$
$P_0$	$\frac{15(1-0.1)}{0.10 - 0.015}$	$\frac{11(1-0.1)}{0.11 - 0.011}$	$\frac{10(1-0.1)}{0.08 - 0.008}$
	$\frac{13.5}{0.085} = ₹159$	$\frac{9.9}{0.099} = ₹100$	$\frac{9}{0.072} = ₹125$
	0.85	0.099	0.072

b)  $b = 0.7$  ; payment ratio = 0.3

	Growth firm	Normal firm	Declining firm
br	$0.7 \times 0.15 = 0.015$	$0.7 \times 0.11 = 0.011$	$0.7 \times 0.08 = 0.008$
P0	$\frac{15(1-0.7)}{0.10 - 0.105}$	$\frac{11(1-0.7)}{0.11 - 0.077}$	$\frac{10(1-0.7)}{0.08 - 0.056}$
	$\frac{4.5}{0.005} = ₹900$	$\frac{3.3}{0.033} = ₹100$	$\frac{3}{0.024} = ₹125$

### 5. Decision tree



Path	Cash flows		Total Cash flows ₹	NPV ₹
	Year 1	Year 2		
1	$25000 \times 0.909 = 22725$	$12,000 \times 0.826 = 9912$	32,637	-7,363
2	22725	13,216	35,941	-4,059
3	22725	18,172	40,897	897
4	$30,000 \times 0.909 = 27,270$	16,520	43,790	3,790
5	27,270	20,650	47,920	7,920
6	27,270	24,780	52,050	12,050

**PRIME ACADEMY**  
**33<sup>RD</sup> SESSION PROGRESS TEST – ADVANCED AUDITING & PROFESSIONAL ETHICS**

No. of Pages: 6

Total Marks: 75

Time Allowed: 2Hrs

**PART – A**

1. A compilation engagement cannot be regarded as providing assurance on the adequacy of the client's \_\_\_\_\_.
  - a. internal control systems
  - b. the actual incidence of fraud
  - c. on-compliance with laws and regulations
  - d. all the above
  
2. The SA 230 prescribes the minimum period of retention of engagement documentation as
  - a. eight years
  - b. ten years
  - c. five years
  - d. seven years
  
3. Audit evidence is more reliable when
  - a. it is obtained from independent sources outside the entity.
  - b. Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.
  - c. Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.
  - d. all the above
  
4. Which of the following is referred to as 'Positive confirmation request'
  - a. A request that confirming party not to respond if the confirming party agrees to the information available in the request letter
  - b. A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request
  - c. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.
  - d. A response that indicates a difference between information requested to be confirmed
  
5. The auditor's opinion does not refer to \_\_\_\_\_
  - a. comparative financial statements
  - b. corresponding figures
  - c. current period figures
  - d. Misstatement in Prior Period Financial Statements

6. Subsequent events refer events occurring between the date of the financial statements and \_\_\_\_\_.
- the date of approval of the financial statements
  - the date of audit completion
  - the date of the auditor's report
  - the date of the financial statements are issued
7. The date of the written representations shall be as near as practicable to, but not after, .
- the date of the financial statements
  - the date of the auditor's report on the financial statements
  - the date of approval of the financial statements
  - the date on which the financial statements are issued
8. The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.
- Detection risk
  - Audit risk
  - Control risk
  - Inherent risk
9. As part of their responsibility for the preparation and presentation of the financial statements, management and, where appropriate, those charged with governance are responsible for:
- The identification of the applicable financial reporting framework.
  - The preparation and presentation of the financial statements
  - An adequate description the financial statements framework
  - All the above
10. This is necessary for questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance.
- Professional behavior
  - Objectivity
  - Professional skepticism
  - Professional Judgment
11. An audit procedure designed to detect material misstatements at the assertion level is a
- Substantive procedure
  - Test of controls
  - Analytical procedure
  - Rebuttable procedure
12. All the joint auditors are jointly and severally responsible in certain cases. Which of the following statements is not correct:
- Those matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors
  - Examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute

- c. In respect of the audit work which is divided among the joint auditors and are responsible for the respective work allocated to them
  - d. Ensuring that the audit report complies with the requirements of the relevant statute.
13. External confirmation of an account receivable provides strong evidence regarding
- a. Completeness
  - b. Rights and obligations
  - c. Existence
  - d. Occurrence
14. With respect to the auditor's responsibilities relating to opening balances when conducting an initial audit engagement, which of the following statements is correct:
- a. Determining whether the prior period's closing balances have been correctly brought forward to the current period
  - b. Determining whether the opening balances reflect the application of appropriate accounting policies
  - c. Accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements
  - d. All of the above
15. \_\_\_\_\_ 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.
- a. Emphasis of matter
  - b. A disclaimer of opinion
  - c. An adverse opinion
  - d. A qualified opinion
16. Which of the following professional ethics is not a requirement for a compilation engagement?
- a. Independence
  - b. Integrity
  - c. Professional conduct
  - d. Confidentiality
17. Which of the following statements is correct? A report on an agreed upon procedures engagement should include:
- a. A statement that the procedures performed do not constitute either an audit or a review
  - b. A statement that the report is restricted to those parties that have agreed to the procedures to be performed
  - c. A description of the auditor's factual findings including sufficient details of errors and exceptions found;
  - d. All of the above

18. Which of the following risk arises from the possibility that the auditor's conclusion, based on the sample, may be different from the conclusion that would be reached if entire population were subjected to the same audit procedure?
- Control risk
  - Risk of under reliance
  - Risk of over reliance
  - Sampling risk
19. The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached is referred to as:
- Audit file
  - Audit evidence
  - Audit documentation
  - Audit procedure
20. Which of the following consist of evaluations of financial information made by a study of plausible relationships among both financial and non-financial data?
- Analytical procedures
  - Substantive procedures
  - Control procedures
  - All of the above
21. Which of the following is not part of permanent audit file?
- Information concerning the legal and organisational structure of the entity.
  - Extracts or copies of important legal documents, agreements and minutes relevant to the audit.
  - Letters of representation or confirmation received from the client.
  - Notes regarding significant accounting policies
22. Which of the following statements is correct while considering the auditor's responsibility on compliance with laws and regulations:
- Identify material misstatements in the financial statements due to non-compliance
  - Prevent non-compliance of the laws and regulations by those charged with governance
  - Detect non-compliance of all the laws and regulations by those charged with governance
  - Compliance of the laws and regulations is the responsibility of those charged with governance
23. As an auditor you have concluded that the use of the going concern assumption is appropriate in the circumstances but a material uncertainty exists in your client. The client's financial statements however, contain adequate disclosure of the existence of the material uncertainty regarding going concern, what would you express in your auditor's report:
- Unqualified opinion
  - Emphasis of Matter paragraph
  - Qualified opinion
  - Adverse opinion

24. Application of analytical procedures at the planning stage of an audit will:
- a. Assist in understanding the business and in identifying areas of potential risk
  - b. Assist in forming overall conclusion as to whether the financial statements as a whole are consistent with the auditor's knowledge of the business
  - c. Assist identify significant fluctuations or relationships that are inconsistent with other relevant information
  - d. Will not help in planning stage
25. The objective of a compilation engagement is for an accountant to use
- a. Auditing expertise
  - b. Accounting expertise
  - c. Both accounting and auditing expertise
  - d. To use Auditor's expertise
- (25x1=25 Marks)

**PART – B**  
**Answer all Questions**

1. Mention few fields other than accounting or auditing where in an auditor may require assistance of an expert while performing his audit. In what ways an expert may assist the auditor. **(5 Marks)**
2. Mr.Kishore has obtained an audit assignment from a new client for the financial year 2011-12. Since the company was previously audited by a qualified CA he decides to accept the opening balances without performing any audit procedure. State your views. **(5 Marks)**
3. An Auditor has obtained written representation from the management on contingent liability of the company. Can the auditor consider the amount as given by the management? Should he obtain additional audit evidence? **(5 Marks)**
4. You have taken up an assignment of compiling the financial statements of a company. You observed that the input information supplied by the company is incomplete, incorrect and few of the Accounting Standards have not been followed. Describe, in brief, the procedure you will follow in the above. **(7 marks)**
5. As an Auditor what are the significant matters and professional judgments that you would consider for documentation in the process of Audit. **(7 marks)**
6. The Management of a concern that you are auditing is requesting you not to send a balance confirmation request to few of their customers. They inform you that there are some sales return issues which are still unresolved. How will you deal with this situation? **(7 marks)**
7. What are the audit procedures that can be used to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. **(7 marks)**
8. What are the conclusions to be made and evaluations required by the auditor in forming an opinion on the financial statements? **(7 marks)**

PRIME ACADEMY  
33<sup>RD</sup> SESSION PROGRESS TEST – ADVANCED AUDITING & PROFESSIONAL ETHICS  
SUGGESTED ANSWERS

PART A

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

## Part – B

1. Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:
  1. The valuation of complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired and liabilities assumed in business combinations and assets that may have been impaired.
  2. The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
  3. The estimation of oil and gas reserves.
  4. The valuation of environmental liabilities, and site clean-up costs.
  5. The interpretation of contracts, laws and regulations.
  6. The analysis of complex or unusual tax compliance issues.

An auditor's expert may be needed to assist the auditor in one or more of the following:

1. Obtaining an understanding of the entity and its environment, including its internal control.
  2. Identifying and assessing the risks of material misstatement.
  3. Determining and implementing overall responses to assessed risks at the financial statement level.
  4. Designing and performing further audit procedures to respond to assessed risks at the assertion level, comprising tests of controls or substantive procedures.
  5. Evaluating the sufficiency and appropriateness of audit evidence obtained in forming an opinion on the financial statements.
- a. As per SA 510 - Standard on Initial Audit Engagements—Opening Balances, If the prior period's financial statements were audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by perusing the copies of the audited financial statements including the other relevant documents relating to the prior period financial statements such as supporting schedules to the audited financial statements. Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements. If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with SA 450.

In this case Mr.Kishore can accept the opening balances of his new client since it has been audited unless the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements.

3. Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements or to support other audit evidence relevant to the financial statements or specific assertions in the financial statements. Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

SA 580, "Written Representations", states that if the auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, the auditor shall determine the effect that such concerns may have on the reliability of representations (oral or written) and audit evidence in general. In particular, if written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general. If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the auditor's report.

In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.

Therefore even though the written representations have been obtained from the management, they do not provide sufficient appropriate audit evidence. The auditor needs to conduct appropriate audit procedures to validate the same.

4. According to SRS 4410 "Engagements to Compile Financial Information", an accountant would normally have to rely upon the management for information to compile the financial statements in a compilation engagement. If in the course of compilation of financial statements, it is observed that the information supplied by the entity is incorrect, incomplete or otherwise unsatisfactory, the accountant should perform following procedures:
  - (i) Make any enquiries of management to assess the reliability and completeness of the information provided;
  - (ii) Assess internal controls prevailing in the entity; and
  - (iii) Verify any matters or explanations.

The accountant may also request the management to provide additional information. This may be asked in the form of management representation letter. If the management refuses to provide additional information, the accountant should withdraw from the engagement, informing the entity of the reasons for such withdrawal.

In the case of a company, the financial statements compiled must comply with the relevant provisions of the Companies Act, 1956, including the Accounting Standards and, accordingly, give a true and fair view. However, without carrying out the procedures necessary for an audit, the accountant cannot form

any opinion on whether the accounts give a true and fair view, even though he has compiled these financial statements. The compilation is based on the information supplied to the accountant by the client and does not include any verification thereof. However, if the accountant becomes aware of material non-compliance with any applicable Accounting Standard(s), the same should be brought to the attention of the management and, if the same is not rectified by the management, it should be included in the Notes to the Accounts and the compilation report of the accountant.

5. The form, content and extent of audit documentation depend on factors such as:
  1. The size and complexity of the entity.
  2. The nature of the audit procedures to be performed.
  3. The identified risks of material misstatement.
  4. The significance of the audit evidence obtained.
  5. The nature and extent of exceptions identified.
  6. The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
  7. The audit methodology and tools used.

Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

1. Matters that give rise to significant risks
2. Results of audit procedures indicating (a) that the financial statements could be materially misstated, or (b) a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
3. Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
4. Findings that could result in a modification to the audit opinion or the inclusion of an Emphasis of Matter paragraph in the auditor's report.

An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results. Documentation of the professional judgments made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgment.

Some examples of circumstances in which, it is appropriate to prepare audit documentation relating to the use of professional judgment include, where the matters and judgments are significant:

1. The rationale for the auditor's conclusion when a requirement provides that the auditor 'shall consider certain information or factors, and that consideration is **significant** in the context of the particular engagement.
2. The basis for the auditor's conclusion on the reasonableness of areas of **subjective judgments** (for example, the reasonableness of significant accounting estimates).
3. The basis for the auditor's conclusions about the authenticity of a document when **further investigation** (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.

6. A refusal by management to allow the auditor to send a confirmation request is a limitation on the audit evidence the auditor may wish to obtain. The auditor is therefore required to inquire as to the reasons for the limitation. A common reason advanced is the existence of a legal dispute or ongoing negotiation with the intended confirming party, the resolution of which may be affected by an untimely confirmation request. The auditor is required to seek audit evidence as to the validity and reasonableness of the reasons because of the risk that management may be attempting to deny the auditor access to audit evidence that may reveal fraud or error.

If management refuses to allow the auditor to send a confirmation request, the auditor shall:

- (a) Inquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness;
- (b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and
- (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.

The auditor may conclude from the above evaluation that it would be appropriate to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures in accordance with SA 315. For example, if management's request to not confirm is unreasonable, this may indicate a fraud risk factor that requires evaluation in accordance with SA 240.

If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance in accordance with SA 260. The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with SA 705.

7. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions.  
The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following:
  - (a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
  - (b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.
  - (c) Reading minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
  - (d) Reading the entity's latest subsequent interim financial statements, if any.

When, as a result of the procedures performed as required as above, the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements.

The subsequent events procedures that the auditor performs may, however, depend on the information that is available and, in particular, the extent to which the accounting records have been prepared since the date of the financial statements. When the accounting records are not up-to-date, and accordingly no interim financial statements (whether for internal or external purposes) have been prepared, or minutes of meetings of management or those charged with governance have not been prepared, relevant audit procedures may take the form of inspection of available books and records, including bank statements.

In addition, the auditor may consider it necessary and appropriate to:

Read the entity's latest available budgets, cash flow forecasts and other related management reports for periods after the date of the financial statements;

Inquire, or extend previous oral or written inquiries, of the entity's legal counsel concerning litigation and claims; or

Consider whether written representations covering particular subsequent events may be necessary to support other audit evidence and thereby obtain sufficient appropriate audit evidence

8. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
  - (a) The auditor's conclusion, in accordance with SA 330, whether sufficient appropriate audit evidence has been obtained;
  - (b) The auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate; and
  - (c) The evaluations required as follows.

**Evaluations on:**

1. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.
2. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
  - a. The financial statements adequately disclose the significant accounting policies selected and applied;
  - b. The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
  - c. The accounting estimates made by management are reasonable;
  - d. The information presented in the financial statements is relevant, reliable, comparable and understandable;

- e. The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
  - f. The terminology used in the financial statements, including the title of each financial statement, is appropriate.
3. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:
- a. The overall presentation, structure and content of the financial statements; and
  - b. Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.
4. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

**PRIME ACADEMY**  
**33RD SESSION PROGRESS TEST – CORPORATE & ALLIED LAWS**

No. of Pages: 6

Total Marks: 75  
Time Allowed: 2Hrs

**PART – A**

1. A shallow director who has control over the affairs of the company, but yet he hides his identity is nomenclated as ;
  - a. Professional director
  - b. Independent director
  - c. Outside director
  - d. Deemed director
  
2. Person who has been removed by Central Government U/s 388 E is ..... from being appointed as a director of any other company for a period of ..... years.
  - a. Removed , 7
  - b. Disqualified , 3
  - c. Removed , 5
  - d. Disqualified , 5
  
3. The default under section 274(1) (g) does not to automatic vacation of office of a director under section 283, hence....
  - a. A person can continue as a director in any company till the end of the term.
  - b. A person cannot continue as a director in any company till the end of the term.
  - c. A person can discontinue as a director in any company till the end of the term.
  - d. A person can continue as additional director in any company till the end of the term.
  
4. A deemed director can be other than an individual, a representative, a body or firm.
  - a. Only in exceptional cases
  - b. Correct rule
  - c. As per Supreme court only an individual is eligible
  - d. A trust cannot become deemed director
  
5. Under Sec 262 :
  - a. A director can be appointed as additional director only in case of casual vacancy
  - b. A director assumes responsibility in a casual vacancy and he too vacates his office, the vacancy cannot be filled once again
  - c. A director assumes responsibility in a non casual vacancy , the vacancy cannot be filled once again by him
  - d. A director can be appointed as nominee director in case of casual vacancy

6. Companies with a paid-up share capital and free reserves of RS.10 crores and above or turnover of Rs.50crores and above the sitting fees :
  - a. Should not exceed Rs.20,000 for all sitting
  - b. Should not exceed Rs.10,000 per sitting per director
  - c. Should not exceed Rs.15, 000 for all sitting
  - d. Should not exceed Rs.20,000 per sitting per director
  
7. If the number of interested directors exceeds or is equal to two-thirds of the total strength, then :
  - a. The number of remaining directors present at the meeting shall be the quorum.
  - b. The number of remaining directors present at the meeting being not less than one third shall be the quorum
  - c. The number of remaining directors present at the meeting being not less than two shall be the quorum
  - d. The number of remaining directors present at the meeting being not less than one third of total strength shall be the quorum
  
8. A director of a company making representation to the members under sec 284 cannot be sued for defamation in respect of anything stated in the representation is termed as :
  - a. Disinterested cons once
  - b. Defamation of the first order
  - c. Disqualifies proposition
  - d. Qualified Privilege
  
9. Provisions of sec 284 will not apply for :
  - a. Nominee director
  - b. Independent director
  - c. Director appointed by disinterested group
  - d. Private company
  
10. Appointment of a director by central government is made with the consent of :
  - a. Application to be made by 250 members or by members holding not less than 20%
  - b. Application to be made by 100 members or by members holding not less than 10%
  - c. Application to be made by 200 members or by members holding not less than 15%
  - d. Application to be made by 100 members or by members holding not less than 25%
  
11. Qualification shares may be held jointly with someone else, the shares must be in the name of the .....
  - a. Managing director and the promoter
  - b. Director along with the promoter
  - c. Director alone if the articles so provide
  - d. Director alone if the articles does not so provide
  
12. A director may be appointed by BIFR need to obtain qualification shares :
  - a. Incorrect statement
  - b. Applicable only when board permits
  - c. Apply when Sick Industrial Act apply
  - d. Applicable only for a nominee director

13. An unlisted company may appoint the small shareholders directors if :
- Majority of small shareholders does not recommend a person's candidature for the post of director in their meeting.
  - Majority of small shareholders recommend a person's candidature for the post of director in their meeting.
  - Majority of directors recommend a person's candidature for the post of director in their meeting.
  - Independent director recommend a person's candidature for the post of director in their meeting.
14. A person who is a partner or any private company of which he is a director , accepts a loan or any guarantee or security for a loan from the company shall:
- Be disqualified but need not vacate office since appointed as small shareholders' director
  - Be disqualified and need to vacate office since appointed as small shareholders' director
  - Hold office at the same does not participate in their affairs
  - Section 274 does not apply to small shareholder's
15. Mr B holds director of 14 companies , and accepts new directorships for 3 more companies , of which for 2 companies he is an alternate director .
- B has to decline 2 companies directorship
  - B has to accept 2 companies alternate director
  - B can accept as a small shareholders director
  - B can accept for one company only
16. The board of XYZ Ltd, X, Y and Z are interested in a particular transaction and to attend a meeting , the quorum is :
- Valid
  - Invalid
  - Interested director should not be counted
  - Interested director should be counted
17. The minutes of the board meeting need not be inspected by:
- Regulatory authority, SEBI
  - Registrar of companies
  - Central Government
  - Disinterested members
18. The board has the power exclusively in a board meeting to :
- To appoint CFO
  - Decide in favour of a political party
  - To appoint a person a MD who is already an MD of another company
  - To sanction investment in another group
19. Not holding a meeting due to quorum not being present shall be :
- Construed as contravention u/s 285
  - Not construed as contravention u/s 285
  - Violation of SEBI rules
  - Construed as contravention of Registrar of companies rules

20. In the general meeting of R Ltd, held on 2.5.2010, Mr S was appointed as a director and he applied and got 1000 shares allotted on 10.7.2010 . R appointment is not valid u/s.....and he should .....
- Sec 274, resign
  - Sec 288, hold , until the two months
  - Sec 283, vacate
  - Sec 289, vacate from 1.08.2010
21. A director who is prevented improperly from attending a meeting :
- may file suit for damages
  - may file a suit for performance
  - may file for a remedy by way of injunction through a suit
  - may file for a stay of the further meetings
22. Business practices if not carried by the director in a prudent way then the matter can be referred to :
- SEBI
  - Company Law Board
  - Company Law Tribunal
  - Company Board
23. Any director reappointed after retirement need to file his/her consent to :
- Company
  - Co-director
  - Managing director
  - Registrar
24. In case of first directors , the appointment can be confirmed if :
- Majority of shareholders dissenting will have to act against consenting shareholders
  - Majority of shareholders dissenting will have to act in favour of consenting shareholders
  - If the board approves
  - Majority of subscribers should be consenting for the appointment
25. If a meeting is attended by all the directors , then the meeting is valid even if:
- Notice is not served
  - Notice is served but quorum is not obtained
  - A director who is absent complains about non receipt of the notice
  - The articles provide for the same.

## Part – B

### ANSWER ALL THE QUESTIONS

1. Mr. Ram is a Director of ABC Limited, XYZ Limited and PQR Limited. ABC Limited was regular in filing annual returns, but did not file annual accounts for the year ended 31st March 2002. Further ABC Limited failed to pay interest on loans taken from a public financial institution from 1st January, 2002 onwards and also failed to repay the matured deposits on due date from 1st April, 2002 onwards.  
Mr. Ram is proposed to be appointed as additional director of MN Limited on 1st June 2003. MN Limited has sought a declaration from Mr. Ram to the effect that the disqualification specification Section 274 (1) (g) of the Companies Act, 1956 is not applicable in his case. Mr. Ram seeks your advice on the following.
  - (i) Whether it is in order for him to give the declaration sought by MN Limited in view of the defaults committed by ABC Limited.
  - (ii) Whether he can continue as a Director in XYZ Limited and PQR Limited and also seek re-appointment when he retires by rotation at the annual general meetings of respective companies to be held in September, 2003.Advise explaining the relevant provisions of the Companies Act, 1956. Would your answer be different, if Mr. Ram resigned his office of director in ABC Limited on 31st December 2007. **(8 Marks)**
2. Mr. PMC is Director in 14 Public Limited Companies as on 30th July, 2003. He continues to be so till 24th September 2003. The following companies appoint Mr. PMC as a Director at their respective Annual General Meetings held on dates mentioned against their names.
  - (i) PQR Ltd. (AGM held on 29th September, 2003)
  - (ii) BCD Private Ltd. (AGM held on 25th September, 2003)
  - (iii) City Traders Association (A company registered under Section 25 of the Companies Act 1986 - AGM held on 26th September 2003).
  - (iv) TSP Ltd. (AGM held on 25th September, 2003).You are required to state with reference to the relevant provisions of the Companies Act, 1956 the options available to Mr. PMC in respect of accepting or not accepting the appointment of Director of the above companies **(6 Marks)**
3. The management of ATP Ltd., a company listed with The Stock Exchange, Mumbai wants to appoint Mr. BDF as Director of a Company at the Annual General Meeting, of the Company to be held on 24th May. It may be noted that Mr. BDF is not a retiring Director. The Management seeks your guidance regarding the procedure to be adopted for the purpose. You are required to state the procedure to be observed after appointment of Mr. BDF as Director, by the management of ATP Ltd., as per the provisions of the Companies Act, 1956. **(5 Marks)**
4. J. an existing rotational director of MRN Company Limited whose term expired at the Company's Annual General Meeting held on 30th September 1997, was reappointed at the same meeting. J. accepted the reappointment and resumed the office without filing his consent with the concerned Registrar of Companies on his reappointment. A group of members of the company object to J's continuation as director, since J did not file his consent with the Registrar within the stipulated period as required under the Companies Act, 1956. Examining the provisions of the Act, decide :

- (i) Whether the members contention shall be tenable and whether J has violated the provisions of the Companies Act, 1956 in this regard?
- (ii) What would be your answer in case J is a person named as director of the company in the Company's Articles of Association registered with the Registrar of Companies? **(7 Marks)**
5. Mr. SDR, a shareholder in M/s JKP Ltd holding ten equity of Rs.10 each fully paid up wants to give a special notice to the company for removal of Mr. EDM, a Director of M/s JKP Ltd without stating any reason in the notice. You are required to state as per the provisions of the Companies Act, 1956 and/or any decided case law whether Mr. SDR is entitled to do so.
- (i) Would your answer be different, if Mr. EDM was a Director appointed by the Central Government under Section 408 of the Companies Act, 1956?
- (ii) Explain briefly the provisions of the Companies Act, 1956 relating to removal of a Director in case of receipt of an appropriate special, notice by the company for this purpose. **(8 Marks)**
6. Mr. Adam, a 15% shareholder of a company and other shareholders have lost confidence in the managing Director (MD) of the company. He is a director not liable to retire by rotation and was re-appointed as Managing Director for 5 years w.e.f. 1.4.2005 in the last Annual General meeting of the Company. Mr. Adam seeks your advice to remove the MD after following the procedure laid down under the Companies Act, 1956.
1. Specify the steps to be taken by Mr. Adam and the Company in his behalf;
  2. Draft a suitable resolution to be passed for removal of MD;
  3. Is it necessary to state reasons to support the resolution for his removal? **(4+4+3= 11 Marks)**
- 7.
- (a) Due to internet problems in the working of M/s. Infighting Detergents Ltd., Mr.Satyam, the Executive Directors, and Mr.Shivam, a Director, have submitted their resignations and decided to dissociate themselves with the working of the company, Mr.Sundram the Managing Director, decides to refuse their resignations. Examine whether the Managing Director can compel Mr.Satyam and Mr.Shivam to continue as per the provisions of the Companies Act. ( 43)
- (b) Examine, with reference to the relevant provisions of the Companies Act, 1956, the validity / legality of a meeting of the Board of Directors of OPQ Co. Ltd., due to be held on 30.09.2001 did not take place for want of quorum. As a result, the Company did not hold any Board Meeting for the quarter ended 30.09.2001 and there is a complaint that the Company has violated the provisions of the Act in this regard. ( 5) **(3+2 = 5 Marks)**

**PRIME ACADEMY**  
**33<sup>RD</sup> SESSION PROGRESS TEST – CORPORATE & ALLIED LAWS**  
**SUGGESTED ANSWERS**

**PART A**

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

## PART - B

1. ABC Ltd., has been regular in fitting annual returns but has not filed annual accounts for one year i.e. financial year ended 31st March 2002.

The disqualification under S.274 (1) (g) will apply only where both annual accounts and annual return have not been filed for three consecutive financial years. Therefore, Mr. Ram is not disqualified under S.274 (i) (g) on this ground.

ABC Ltd., has failed to pay interest on term loans from 1.4.2002. This is not a ground for disqualification under S.274 (1) g. But ABC Ltd., has failed to pay matured deposits from 1.4.2002 and the default continues for more than 1 year.

Therefore, Mr. Ram is disqualified under S.274 (1) (g). Therefore,

- (i) He cannot give the declaration sought by MN Ltd., He cannot be appointed as additional director of MN Ltd., on 1st June 2003.
- (ii) He can continue as director in XYZ Ltd., and PQR Ltd., But he cannot seek reappointment as he is disqualified under 274 (1) (g) for a period of five years.

In case, he resigns as a director of ABC Ltd., on 31st December 2002 he will not be a director of ABC Ltd., when the default in repayment of matured deposits crystallizes. Therefore, if Mr. Ram so resigns he can

- (a) give the declaration as sought by MN Ltd., and
- (b) seek reappointment as a director in XYZ Ltd. and PQR Ltd., when he retires by rotation in September, 2003.

2. The provisions relating to ceiling on the number of directorships a person may hold. A person may not hold directorship in more than 15 (fifteen) companies. This restriction is apparently meant to ensure that persons appointed as directors able to concentrate and focus their time and energy on a few rather than numerous companies. This ceiling is currently 15. Let us now examine the proposed appointments.

Date of Appointment	Company	Remarks	Cumulative no of Directorship
As on 24.09.2003			14
25.09.2003	TSP Ltd.	Being a public company shall be included.	15
25.09.2003	BCD Private Ltd.	Being a Private company and assuming that it is neither a holding nor a subsidiary company of a public company shall be excluded.	15
26.09.2003	City Traders Association	A company licensed under S.25 of the Companies Act. 1956 shall be excluded.	15
29.09.2003	PQR Ltd.	Being a public company shall be included.	16

It can be seen that the appointment in PQR Ltd. would take the number of directorships to 16. Therefore, Mr. PMC has to vacate his office as director in any of the 15 companies in which he is already a director as on 29.09.2003, within 15 days. If he fails to do so his appointment in PQR Ltd., shall become void on the expiry of the said fifteen days.

3. Appointment of a person other than retiring director as director of the company can be made either in an AGM or in an EGM. A person desirous of being appointed as a director of a company or a member intends to propose his name shall leave a notice in writing mentioning his intention, in not less than fourteen days and a amount of ₹500 shall be deposited with the notice. The procedure to be followed after the appointment of Mr. BDF as Director is listed below.

#### Directors Responsibilities

Obtain Director Identification Number from the Ministry of Corporate Affairs. Submit the following to the Company.

- Consent in writing to the Company within 30 days of his appointment
- Declaration to the effect that he is not disqualified to act as such.
- General disclosure of interest in Form 24AA as per section 299 of the Companies Act, 1956
- The particulars required under section 305, 307, 308 of the Companies Act, 1956.
- To acquire qualification shares, if any, as per articles of association.
- Inform the other companies about his appointment within 20 days of appointment. Company's Responsibilities

The deposit money of ₹500/- has to be refunded to the concerned member.

In case of listed companies, inform stock exchanges where the company's shares are listed as per Clause 30 of the listing agreement.

The company has to file inform 32 with the Ministry of Corporate Affairs within 30 days of the appointment.

Update Register 301, 303 and 307.

Obtain the aforesaid disclosures from the appointee director and place before the ensuing board meeting for the board to take note of.

- 4.
- (i) The provisions relating to filling of consent to act as a director. For any appointment to be valid , the consent of the director is required. It can be seen that a director reappointed after retirement after retirement by rotation need not. file consent under S.264 with the Registrar of Companies within 30 days in Form No. 29. Therefore J has not violated the provisions of S.264 of the Companies Act, 1956. The member's objection to J's continuation as director is no tenable.
  - (ii) The answer would be the same. This is because a person named as director in the company's articles of association as registered with the Registrar need not file his consent under S. 264.
- 5.
- (i) Removal of a director requires a special notice under s.284 of the Companies Act, 1956. Even one member may give a special notice. The member Riving special notice is not statutorily required to state any reason in the notice. This view is also supported by the decision of the Karnataka High Court in the case of Karnataka Bank Ltd. vs.A.B.Datar Et others. (1994) 79 comp. Cases 417. Hence, Mr.SDR ten equity shares may give a special notice for removal of Mr.EDM.
  - (ii) As a director appointed by the Central Government under s.408 cannot be, removed by the members, the special notice would be invalid if Mr.EDM was a director appointed by the Central Government under s.408.
  - (iii) Please refer to the provisions of s.284 relating to removal of directors discussed above.

6.
  1. For the steps to be taken by Mr.Adam in respect of serving, a special -notice in proposing the resolution for removal of the Managing, Director before the expiry of his term and the procedure to be followed by the company in this regard.
  2. RESOLVED THAT pursuant to section 284 of the companies Act, 1956, and subject to then notice received from Mr. .... member, the consent of the company be and is hereby accorded for the removal of Mr..... from the post of Directorship with immediate effect.  
RESOLVED THAT Mr. .... Secretary, be and is hereby authorized to do all such acts, deeds, matters and things to give effect to the aforesaid resolution.
  3. To check the case law LIC vs. Esorts Ltd., (1986) 59 Comp. Cases. 548 (SC).

7.
  - (a) The Companies Act 1956, does not provide specifically for resignation of a director. Where the articles are silent a director may resign from his office by giving notice to the company. Where articles provide that the resignation is to be accepted by the board to be effective then the resignation will take effect from the date of such acceptance.
    1. The steps to be taken by Mr.Adam in respect of serving, a special -notice in proposing the resolution for removal of the Managing, Director before the expiry of his term and the procedure to be followed by the company in this regard.
    2. RESOLVED THAT pursuant to section 284 of the companies Act, 1956, and subject to then notice received from Mr. .... member, the consent of the company be and is hereby accorded for the removal of Mr..... from the post of Directorship with immediate effect.  
RESOLVED THAT Mr. .... Secretary, be and is hereby authorized to do all such acts, deeds, matters and things to give effect to the aforesaid resolution.
    3. To check the case law LIC vs. Esorts Ltd., (1986) 59 Comp. Cases. 548 (SC).
  - (b) According to S.288 (2), if a meeting of the Board called in compliance with S. 285 could not be held for want of a quorum, the provisions of S.285 shall not be deemed to have been contravened. In view of this, the companies that M/s. OPQ Ltd has violated the provisions of the Companies Act, 1956 is not maintainable.