SUGGESTED ANSWERS TO

THE QUESTIONS SET OF

CHARTERED ACCOUNTANCY PROFESSIONAL (CAP)-II LEVEL

JUNE 2022 EXAMINATIONS

GROUP-I

The Institute of Chartered Accountants of Nepal (ICAN)

ICAN Marg, Satdobato, Lalitpur

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Paper 1: Advanced Accounting

Attempt all questions. Working notes should form part of the answer.

1. P, Q and R are in partnership for a number of years. Profit and Losses were shared in the ratio of 3:4:3. On Ashadh end 2077 it was decided to dissolve the partnership. The Statement of Financial Position of the firm as on that date stood as below:

Statements of Financial Position
As on Ashadh end 2077

Liabilities	Amount	Assets	Amount
Partners' capital accounts:			
P	30,000	Fixed Assets	78,000
Q	90,000	Debtors	52,500
R	120,000	Stock	147,000
		Cash	37,500
Trade creditors	75,000		
	315,000		**315,000**

During the dissolution, following cash and other transactions arose:

Bhadra 3, 2077:

i) P agreed to settle a hire purchase debt outstanding on a motor car. The amount was Rs. 6,750 and is to be adjusted in his capital account.
ii) Debtors were assigned to R for the agreed sum of Rs. 45,000.
iii) R settled one creditor for Rs. 3,000 by giving him one of the private paintings.
iv) The fixed assets, apart from the Car which had a book value of Rs. 26,250 were sold at auction for Rs. 102,000. The Car is to be taken at book value by R. Adjustment is to be made in his capital account.

Ashoj 1, 2077:

i) Realisation expenses of Rs. 5,250 were paid
ii) Cash transfers among partners were completed
iii) Remaining creditors were paid

On Ashoj 1, 2077 Q and R formed a new partnership by merging with another firm. The partners in the other firm, X and Y, shared profits and loss equally. The new amalgamated firm will be called Golden Eyes & Co. and will take over the stocks of both firms.

All partners have agreed to the following value for assets which will be taken over:

Particulars	**Q and R**	**X and Y**
	Rs.	**Rs.**
Stocks	73,500	93,000
Furniture	-	12,000
Motor Vehicles	-	22,500

Goodwill	25,200	67,500
Total	**98,700**	**195,000**

The partners also agreed that profit and losses would be shared: Q – 20%, R – 15%, X – 30% and Y – 35%

The capital is to be contributed in the same proportions after allowing Rs. 30,000 for working capital. Goodwill is not to appear in any sets of books.

You are required to:

i) Show the accounts closing the books of the firm P, Q and R partnership.
ii) Prepare a Statement of Financial Position for Golden Eyes & Co. as at Ashoj 1, 2077.

Answer

1) In the books of M/s P, Q and R

Realisation account

Particulars	Amount	Particulars	Amount
To Fixed Assets	78,000.00	By R a/c Debtors Assigned	45,000.00
To Debtors	52,500.00	By Cash a/c Fixed Assets sold	102,000.00
To Stock	147,000.00	By R a/c Car Taken over	26,250.00
To Cash a/c - Realisation Expenses	5,250.00	By Partners Capital a/c Stock over Q Rs. 42,000 R Rs. 31,500	73,500.00
		By Partners Capital a/c Loss on Realisation P Rs.10,800 Q Rs. 14,400 S Rs. 10,800	36,000.00
	282,750.00		**282,750.00**

Partner's Capital Accounts

Particulars	P	Q	R	Particulars	P	Q	R
To Realisation a/c	-	-	45,000.0	By Balance b/d	30,000	90,000	120,000
To Realisation a/c	-	-	26,250.0	By Trade Creditors a/c	6,750	-	3,000
To Realisation a/c	-	42,000.0	31,500.0	By Goodwill	7,560	10,080	7,560
To Goodwill Written off	-	14,400.0	10,800.0				
To Realisation a/c	10,800.0	14,400.0	10,800.0				
To Cash a/c - balance paid	33,510.0	29,280.0	6,210.0				
Total	**44,310.0**	**100,080.0**	**130,560.0**	**-**	**44,310**	**100,080**	**130,560**

Cash Account

Particulars	Amount	Particulars	Amount
To Balance b/d	37,500.00	By Trade Creditor a/c	65,250.00
To Realisation a/c	102,000.00	By Realisation a/c	5,250.00
		By Partners Capital a/c P Rs. 33510 Q Rs. 29280 R Rs. 6210	69,000.00
	139,500.00		**139,500.00**

Trade Creditors Account

Particulars	Amount	Particulars	Amount
To Hire Purchase Debt Settled	6,750.00	By Balance b/d	75,000.00
To Private Printing	3,000.00		
To Cash	65,250.00		
	75,000.00		75,000.00

Statement of Financial Position of Golden Eyes & Co.

Particulars	**Amount**	**Particulars**	**Amount**
Partners' Capital Accounts:		Motors Vehicles	22,500.00
Q	46,200.00	Furniture	12,000.00
R	34,650.00	Stock	166,500.00
X	69,300.00	Cash	30,000.00
Y	80,850.00		
	231,000.00		231,000.00

Working Notes:

1. Assets Introduced:

Particulars	**Q**	**R**	**X**	**Y**
Stock	42,000.0	31,500.0	46,500.0	46,500.00
Furniture	-	-	6,000.0	6,000.00
Motor Vehicle	-	-	11,250.0	11,250.00
Goodwill	14,400.0	10,800.0	33,750.0	33,750.00
Less: Goodwill written off	18,540.0	13,905.0	27,810.0	32,445.00
Total Assets of new firm	37,860.0	28,395.0	69,690.0	65,055.0

Total Assets to be distributed Rs. 2,01,000+Working Capital (30,000) = Rs.2,31,000

2. Calculation of cash to be introduces/withdraw

Particulars	**Q**	**R**	**X**	**Y**
Total Assets of new firm	37,860.0	28,395.0	69,690.0	65,055.0
Total Assets distributed in new profit ratio	46,200.0	34,650.0	69,300.0	80,850.0
Cash to be introduced	8,340.0	6,255.0		15,795.0
Cash to be withdraw			390.0	

2.

a) The Income and Expenditure Account of a Sweet Club for the year 2021 is as follows:

Expenditure	Amount	Income	Amount
To Salaries	120,000	By Subscriptions	170,000
To Printing & Stationery	6,000	By Entrance Fees	4,000
To Postage	500	By Contribution for Dinner	36,000
To Telephone	1,500		
T General Expenses	12,000		
To Interest & Bank Charges	5,500		
To Audit Fees	2,500		
To Annual Dinner Expenses	25,000		
To Depreciation	7,000		
To Surplus	30,000		
	210,000		**210,000**

The account has been prepared after the following adjustments.

Particulars	31.12.2020	31.12.2021
Subscription outstanding	16,000	18,000
Subscription received in advance	13,000	8,400
Salaries Outstanding	6,000	8,000
Sport Equipment	52,000	

The Club owned a building of Rs. 190,000 since 2019 (no depreciation on Building). At the end of the year after depreciation of Rs. 7,000 Sport Equipment amounted to Rs. 63,000. In 2019 the club had raised a bank loan which is still unpaid Rs. 30,000. Cash in hand on 31.12.2021 Rs. 28,500. Audit fees for 2020 paid during 2021 Rs. 2,000 and Audit fees of 2021 not paid Rs. 2,500.

Required:

Prepare the Receipt and Payment Accounts of the club for 2021 and Statement of Financial Position as on 31.12.2021. **10**

b) On 2.6.2078 the stock of Mr. Rajesh was destroyed by fire. However, following particulars were furnished from the records saved:

	Rs.
Stock at cost on 1.4.2077	2,02,500
Stock at 90% of cost on 31.3.2078	2,43,000
Purchases for the year ended 31.3.2078	9,67,500
Sales for the year ended 31.3.2078	13,50,000
Purchases from 1.4.2078 to 2.6.2078	3,37,500
Sales from 1.4.2078 to 2.6.2078	7,20,000

Sales up to 2.6.2078 includes Rs. 1,12,500 being the goods not dispatched to the customers. The sales (invoice) price is Rs. 1,12,500.

Purchases up to 2.6.2078 includes a machinery acquired for Rs. 22,500.

Purchases up to 2.6.2078 does not include goods worth Rs. 45,000 received from suppliers, as invoice not received up to the date of fire. These goods have remained in the go-down at the time of fire. The insurance policy is for Rs. 1,80,000 and it is subject to average clause.

Required:

Ascertain the amount of claim for loss of stock.

10

Answer

2 a)

Receipts and Payments Accounts

Receipts	**Amount**	**Payments**	**Amounts**
To Balance b/d(balancing fig.)	13,600.00	By Salaries (Note 3)	118,000.00
To Subscriptions (Note 2)	163,400.00	By Printing & Stationery	6,000.00
To Entrance Fees	4,000.00	By Postage	500.00
To Contribution for Dinner	36,000.00	By Telephone	1,500.00
		BY General Expenses	12,000.00
		By Interest & Bank Charges	5,500.00
		By Audit Fees	2,000.00
		By Annual Dinner Expenses	25,000.00
		By Sports Equipment (Note 4)	18,000.00
		By Balance c/d	28,500.00
	217,000.00		**217,000.00**

Statement of Financial Position of Sweet Club as on 31.12.2021

Liabilities	**Amount**	**Amount**	**Assets**	**Amount**	**Amount**
Capital Fund:			Building		190,000
Opening Balance	220,600		SportsEquipment:		
Add: Surplus	30,000	250,600	Opening Balance	52,000	
Bank Loan		30,000	Addition	18,000	
Salaries Payable		8,000			
Audit Fee Payable		2,500		70,000	
Subscription received in advance		8,400	Less: Depreciation	7,000	63,000

		Subscription Due	18,000
		Cash in Hand	28,500
	299,500		**299,500**

Working Notes:

1. Calculation of opening Capital Fund

Liabilities	Amount	Assets	Amount
Capital Fund (Balancing Fig.)	220,600	Building	**190,000**
Bank Loan	30,000	Sports Equipment	52,000
Salaries Payable	6,000	Subscription Due	16,000
Audit Fees Payable	2,000	Cash in Hand (R&P)	13,600
Subscription receives in advance	13,000		
	271,600		**271,600**

2. **Subscription:**

As per Income & Expenditure A/c		170,000.00
Add: Subscription received in advance for 2020	8,400.00	
Subscription outstanding 2021	16,000.00	24,400.00
		194,400.00
Less: Subscription outstanding for 2020	18,000.00	
Subscription received in advance in 2021	13,000.00	31,000.00
Subscription Received		**163,400.00**

3. **Salaries:**

As per Income & Expenditure A/c	120,000.00
Add: Outstanding for 2020	6,000.00
	126,000.00
Less: Outstanding for 2021	8,000.00
Salaries Paid	**118,000.00**

4. **Sport Equipment**

Closing Balance	63,000.00

Add: Depreciation	7,000.00
	70,000.00
Less: Opening Balance	52,000.00
Purchase during the year	**18,000.00**

2 b) **In the books of Mr. Rajesh**

Trading Account for the year ended 31.3.2078

	Rs.		**Rs.**
To Opening Stock	2,02,500	By Sales	13,50,000
To Purchases	9,67,500	By Closing at Stock at cost (2,43,000×100/90)	2,70,000
To Gross Profit	4,50,000		
	16,20,000		16,20,000

Memorandum Trading A/c

For the period from 1.4.2078 to 02.06.2078

	Rs.		Rs.
To Opening Stock (at cost)	2,70,000	By Sales 7,20,000	
To Purchases 3,37,500		Less: Goods not dispatched - 1,12,500	6,07,500
Add: Goods received but invoice not received – 45,000		By Closing stock (Balancing figure)	2,25,000
382,500			
Less: Machinery - 22,500	3,60,000		
To Gross Profit (Refer W.N.)	2,02,500		
	8,32,500		**8,32,500**

Calculation of Insurance Claim

Claim subject to average clause= (Actual loss of stock/Value of stock on the date of fire × Amount of policy)

= 1,80,000× (2,25,000/2,25,000)

Rs. 1,80,000

Working Note:

G.P. ratio= 4,50,000/13,50,000×100

= 33 1/3 %

Amount of Gross Profit = Rs. 6,07,500×33 1/3%

= Rs. 2,02,500

3.

a) The following is the Financial Position as at 1st January of Everest Ltd.

Capital & Liabilities	Amount (Rs)	Assets	Amount (Rs)
Subscribed Capital:			
3000 cum pref, Share of Rs. 100 each	300,000	Non-Current Assets (Inc. Goodwill 100,000)	1,080,000
7500 Equity Shares of Rs.100 each	750,000	Investments	20,000
Securities Premium on Preference Share	12,000	Stock in Trade	200,000
General Reserve	80,000	Trade Debtors	154,500
Trade Creditors	375,000	Bank Balance	62,500
Total	**1,517,000**		**1,517,000**

Contingent Liability: Preference dividends in arrears Rs.66,000.

The Board of Directors of the Company decided upon the following Scheme of Reconstruction:

i) Preference Shares are to be converted into 13% unsecured Debentures of Rs. 100 each in regard to 80% of the dues (including arrears of dividends), and for the balance, Equity Shares of Rs.50 paid up issued. The Authorized Capital of the Company permitted the Issue of Additional Shares.

ii) Equity Shares would be reduced to share of Rs.50 each paid up

iii) All Equity Shareholders agree to pay the balance in Cash.

iv) Goodwill has lost its value and is to be written off fully. Investments are to reflect their market value of Rs. 30,000. Obsolete items in stock of Rs. 50,000 are to be written off. Bad Debts to the extent of 5% of the Total Debtors would be provided for. Other Non-Current Assets to be written down by Rs. 150,000.

The Scheme was duly approved and put into effect. The Company carried on trading for six months and after writing off Depreciation at 20% p.a. on the revised value of Non-current

Assets and made a Net profit of Rs.80,000. The half- yearly working resulted in an increase of Sundry Debtors by Rs.60,000. Stock by Rs.80,000 and cash by Rs. 40,000.

Required:

Show the Journal Entries necessary in the Company's books to give effect to the scheme and draw the Statement of Financial Position as at 30th June.

b) The following balances appeared in the books of Paradise Ltd on 1-4-2011: (i) 12 % Debentures Rs 7,50,000 (ii) Balance of Sinking Fund Rs 6,00,000 (iii) Sinking Fund Investment Rs 6,00,000 represented by 10% ` 6,50,000 secured bonds of government.
Annual contribution to the Sinking Fund was Rs 1,20,000 made on 31st March each year. On 31-3-2012, balance at bank was Rs 3,00,000 before receipt of interest. The company sold the investment at 90%, for redemption of debentures at a premium of 10% on the above date.

Required:

Prepare the following accounts for the year ended 31st March 2012: (1) Debentures Account (2) Sinking Fund Account (3) Sinking Fund Investment Account (4) Bank Account (5) Debenture Holders Account **5**

Answer

3 a)

1. Computation of number of Equity Shares to be issued afresh

Amount due to preference Shareholders (Capital + Arrears Dividend)	366,000
Amount to be settled by way of 13% Unsecured Debentures at 80% of the above	292,800
Balance Amount (i.e.,20%) to be settled by issuing Equity shares	73,200
Number of Equity Shares of Rs.100 each to be issued as Rs.50 paid up (Rs.73200/ Rs.50)	1,464 shares

2. **Computation of Cash /Bank balance after six mounts**

Receipts	Amount (Rs)	Payments	Amount (Rs)
To balance b/d – given	62,500		
To Equity Share Capital – Call money of Rs.50 on (1464 + existing 7500) share	448,200		
To Addition to Cash Balance due to six months operations – given	40,000	By Balance c/d (after six months)	550,700
Total	**550,700**		**550,700**

3. Journal Entries in the books of Everest Ltd

S.N.	Particulars	Dr.	Cr.
1.	Cumulative Preference Share Capital a/c	300,000	
	Loss on extinguishment of financial liability a/c	66,000	
	To 13% Unsecured Debentures a/c		292,800
	To Equity Share Capital a/c		73,200
	(Being old financial liability extinguished and new financial liability & equity recognized – refer WN 1)		
2.	Equity Share Capital a/c	375,000	
	To Capital Reduction a/c		375,000
	(Being Equity Share of Rs.100 each reduced as Rs.50 paid up-presently 7500 Equity Shares at Rs.50 per share as per scheme.)		
3	Cash /bank a/c	448,200	
	To Equity Share Capital a/c		448,200
	(Being call money of Rs.50 each for (1464 + 7500) = 8964 Equity Shares, including those allotted to preference Shareholders as per scheme)		
4.	Investments a/c	10,000	
	Capital Reduction (Balancing figure)	297,725	
	To Goodwill a/c		100,000
	To Stock a/c		50,000
	To Other Non-Current Assets a/c		150,000
	To Debtors a/c		7,725
	(Being the change in value of assets as per Scheme, now recorded)		
5.	Capital Reduction a/c	11,275	
	To General Reserve a/c		11,275
	(Being the transfer of Capital Reduction A/c balance – see WN 4 below)		

4. Capital Reduction Account

Receipts	Amount (Rs)	Payments	Amount (Rs)
To Cum. pref. Shareholders – Dividend Arrears	66,000	By Equity Share capital – Reduction	375,000

To Sundry Assets – w/off – refer J.E 4	297,725		
To General Reserve – balancing figure	11,275		
Total	**375,000**		**375,000**

5. Statement of Financial Position of Everest Ltd as at 30th June

Capital & Liabilities	Amount (Rs)	Assets	Amount (Rs)
Share Capital: 8,964 Equity Shares of Rs. 100 each, fully paid up	896,400	Non-Current Assets: Gross * 830,000 Less: Depreciation 83,000	747,000
Securities Premium (given)	12,000	Investments (at Market Value)	30,000
General Reserve	91,275	Stock in Trade	230,000
Profit & Loss	80,000	Trade Debtors	206,775
13% Unsecured Debentures	292,800	Cash & Bank Balance	550,700
Trade Creditors	392,000		
Total	**1,764,475**		**1,764,475**

*Revised Gross Blok of Non-current Assets= 1,080,000 – Goodwill 100,000 – Reduction 150,000 = 830,000

6. Determination of Trade Creditors figure

Trade Creditors has been determined as Balancing Figure. Alternatively, it can be computed independently, in the following manner

Profit upto30th June – given	80,000
Add: Depreciation (Non-Cash Item)	83,000
Cash from Operations	163,000
Less: Change in Current Assets (i.e. Increase in Assets represent cash outflow)	
Debtors	(60,000)
Stock	(80,000)
Cash Balance	(40,000)
Net Cash outflow from operations – representing an increase in creditors	17,000

Add: Opening Balance of Creditors 375,000 Revised
Balance of Creditors 392,000

3 b) **12% Debenture Account**

Date	Particulars	Amount	Date	Particulars	Amount
31, Mar 2012	To Debenture Holder A/c	750,000	1st April 2011	By Balance b/d	750,000
		750,000			**750,000**

Sinking Fund Account

Date	Particulars	Amount	Date	Particulars	Amount
31st March, 2012	To Sinking Fund Investment A/c 10% Sec. Bond (loss)	15,000	1st April, 2011	By Balance b/d	6,00,000
31st March, 2012	To General reserve A/c (Bal.fig.)	7,70,000	31st March, 2012	By Profit and loss, A/c (transfer for year 11-12	1,20,000
				By Interest on sinking fund A/c [Interest on 10% Govt. bond (` 6,50,000 x 10%)]	65,000
		7,85,000			**7,85,000**

Sinking Fund Investment Account (10% Secured Bonds of Govt.)

Date	Particulars	Amount	Date	Particulars	Amount
1st April, 2011	To Balance b/d	6,00,000	31st March, 2012	By Bank A/c (6,50,000 x 90% = 5,85,000)	5,85,000
				By Sinking Fund, A/c	15,000
		6,00,000			**6,00,000**

Bank Account

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
31st March, 2012	To Balance b/d	3,00,000	31st March, 2012	By 12% Debenture	8,25,000
	To Sinking Fund	65,000	31 March, 2012	By Balance c/d	125,000

	A/c (Interest)				
	To Sinking fund Investment A/c	585,000			
		950,000			**9,50,000**

Debenture holders Account

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
31st March, 2012	To Bank A/c	8,25,000	31st March, 2012	By 12% Debentures	7,50,000
				By Premium on redemption of debentures	75,000
		8,25,000			**8,25,000**

4.

a) Big Bank Ltd. has the following Capital Funds and Assets as at 31st Ashadh, 2078:

	Rs. in crores
Capital Funds:	
Equity Share Capital	600.00
Statutory Reserve	470.00
Profit and Loss Account (Dr. Balance)	30.00
Capital Reserve [out of which Rs. 25 crores were due to revaluation of assets (on which discount of 55% is to be provided) and balance due to sale of assets]	130.00
Assets:	
Balance with other banks	
Cash balance with NRB	15.00
Claim on Banks	35.50
Other Investments	52.50
Loans and Advances:	70.00
Guaranteed by Government	
Guaranteed by PSUs of Central Government	
Other	22.50
Premises, furniture and fixtures	110.00

Leased assets	9,365.00 92.50 40.00

Required:

(i) Segregate the capital funds into Tier I and Tier II capitals; and (ii) Find out the risk-adjusted asset. **10**

b) ABC Life Insurance Co. Ltd. purchased the following equity shares of different company. The date of purchase, purchase price and market price of these securities are given as follows:

Company	**Purchase Date**	**Face Value**	**Cost Price**	**Market Value on Purchase**	**Market Value on year end**
BPC Ltd.	01.01.2021	2,000	2,500	3,000	2,800
Chameliya Co. Ltd.	06.02.2021	3,000	3,000	2,500	2,700
Mero Bank Ltd.	31.06.2021	1,000	1,000	800	900
NTC Nepal Ltd.	17.07.2021	1,000	1,500	2,000	2,100
Total		**7,000**	**8,000**	**8,300**	**8,500**

Assuming that the financial year the insurance co. end on 31st December, journalize the above transaction and prepare the investment account. **5**

Answer

4 a) **Capital Funds-**

Tier I:	**Rs. in crore**
Equity Share Capital	600
Statutory Reserve	470
Capital Reserve (arising out of sale of assets)	105
Less: Profit & Loss (Dr. bal.)	(30)
	1,145
Capital Funds- Tier II:	
Capital Reserve (arising out of revaluation of assets)	25
Less: Discount to the extent of 55%	(13.75)
	11.25

(ii) **Risk Adjusted Assets**

Funded Risk Assets	**Rs. in Crore**	**Percentage Weight**	**Amount Rs. in crore**
Cash Balance with NRB	35.50	0	-
Balances with other Banks	15	20	3
Claims on banks	52.50	20	10.50
Other Investments	70	100	70
Loans and Advances:			
(i) Guaranteed by government	22.50	0	-
(ii) Guaranteed by PSUs	110	0	-
(iii) Others	9,365	100	9,365
Premises, furniture and fixtures	92.50	100	92.50
Leased Assets	40	100	40
			9,581

4 b) Journal entries in books of Nepal Life Insurance Co. Ltd

On 01.01.2021

Available for Sale Investment A/c	Dr	3,000
To Bank A/c		2,500
To Investment Revaluation Reserve		500

(On acquisition of available for sale investment, fair value in excess of cost price credited to investment revaluation reserve account under equity account)

On 06.02.2021

Available for Sale Investment A/c	Dr	2,500
Investment Revaluation Reserve		500
To Bank A/c		3,000

(On acquisition of available for sale investment, cost price in excess of fair value debited to investment revaluation reserve account under equity account)

On 31.06.2021

Available for Sale Investment A/c	Dr	800
Investment Revaluation Reserve		200

To Bank A/c 1,000

(On acquisition of available for sale investment, cost price in excess of fair value debited to investment revaluation reserve account under equity account)

On 17.07.2021

Available for Sale Investment A/c Dr 2,000

To Bank A/c 1,500

To Investment Revaluation Reserve 500

(On acquisition of available for sale investment, fair value in excess of cost price transferred to investment revaluation reserve account)

ABC Life Insurance Co. Ltd.
Available for Sale Investment Account

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
01.01.2021	To Bank a/c	2,500			
01.01.2021	To Investment Revaluation Reserve a/c	500			
06.02.2021	To Bank a/c	2,500			
31.06.2021	To Bank a/c	800			
17.07.2021	To Bank a/c	1,500			
17.07.2021	To Investment Revaluation Reserve a/c	500			
31.03.2021	To Investment Revaluation Reserve a/c	200	31.12.2021	By Balance c/d	8,500
		8,500			**8,500**

As per NAS, the available for sale investment shall be measured at fair value plus transaction cost if any on initial measurement. Upon subsequent measurement it shall be measured at fair value. In above case the market value is fair value, at the year end the value of investment is Rs. 8,500. The difference between the previous carrying amount and the market value shall be credited to equity under investment revaluation reserve.

5.

a) Old Era Publication Publishes a popular monthly magazine on 15th of every month. The publication sells the advertising space on terms of 90% payable in advance and balance 10% Payable within 30 days of release of the publication. The space of Ashadh, 2078 issue of the magazine was sold in the month of Jestha, 2078. The magazine was published as per schedule on 15th of the month. The amount of Rs. 2,70,000 has been received upto 31st Ashadh, 2078 and Rs. 30,000 was received on the 10th Shrawan, 2078 for advertisement published in the Ashadh issue of the publication.

Please advise the accountant the amount of revenue to be recognized in the context of the provision of NAS 18 'Revenue 'during the year ending on 31st Ashadh, 2078. **5**

b)

i) The board of directors of ABC Limited approved its financial statement for the year ended 31st March 2021 on 30th June 2021. A debtors against whom insolvency proceeding were instituted before 31st March 2021, is declared 20th of June 2021. The amount receivable from the debtor was Rs. 5,00,000. Advice the appropriate treatment for the year ended 31st March 2021 to ABC Limited.

ii) The Board of Directors XYZ Limited approved its financial statement for the financial year ended on 31st Ashad 2078 on 20th Aswin 2078. It has investments held for trading and therefore valued at market price of 31st Ashad 2078 which is fair value of the investment. The market price of the investment was decreased on 25th Bhadra 2078. Advice the appropriate treatment for the year ended 31st Ashad 2078 to XYZ Limited. **5**

c) Borough owns the whole of the equity share capital of its subsidiary Hamlet. Hamlet's statement of financial position includes a loan of Rs 25 million that is repayable in five years' time. Rs 15 million of this loan is secured on Hamlet's property and the remaining Rs 10 million is guaranteed by Borough in the event of a default by Hamlet. The economy in which Hamlet operates is currently experiencing a deep recession, the effects of which are that the current value of its property is estimated at Rs 12 million and there are concerns over whether Hamlet can survive the recession and therefore repay the loan.

Required:

Describe, and quantify where possible, how it should be treated in Borough's statement of financial position for the year end.

Also, distinguish between Borough's entity and consolidated financial statements and refer to any disclosure notes. Your answer should only refer to the treatment of the loan and should not consider any impairment of Hamlet's property or Borough's investment in Hamlet.

Note. The treatment in the income statement is not required for any of the items.

Answer

5 a) **Definition:**

As per NAS 18 'Revenue', in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished.

Analysis of given case:

In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is appeared for public and hence revenue is recognized on that date. In this case, it is 15.03.2078, the date of publication of the magazine.

Accounting treatment for given situation:

Hence, Rs. 3,00,000 (Rs. 270,000+Rs. 30,000) is recognized as income in Ashadh, 2078. The terms of payment are not relevant for considering the date on which revenue is to be recognized. Rs. 30,000 is treated as amount due from advertisers as on 31.03.2078 and Rs. 2,70,000 will be treated as payment received against the sale.

5 b)

i) As per Nepal Accounting Standard -10, Event after Reporting period an entity shall adjust the amounts recognized in it's financial statement for events after the balance sheet date that provide further evidence of conditions that existed on the balance sheet date. So it's adjusting event the company should make provision for loss of Rs. 5,00,000 in its financial statement of the year ended on 31st March 2021.

ii) As per Nepal Accounting Standard -10, Event after Reporting period an entity shall not adjust the amounts recognized in it's financial statement for events after the balance sheet date for which no condition was prevailing on or before the balance sheet date. Subsequent decline in the market price does not reflect the conditions prevailing as on balance sheet date, such event is not adjusting event. So, it should not be adjusted in the financial statement for the year ended on 31st Ashad 2078. But it should be disclosed in notes to accounts.

5 c) Legally, Borough and Hamlet are separate companies and in its individual financial statements Borough will simply show its investment in Hamlet as an asset. The guarantee of Rs 10m will be disclosed as a contingent liability. Borough will not need to reflect the Rs 15m which is secured on Hamlet's property. If at some point it is decided that Hamlet is not a going concern, then Borough's loan guarantee will need to be provided for.

In its group financial statements Borough will consolidate the whole of the Rs 25m loan.

6. Write short notes on: **(5×3=15)**

a) Discounting and Collection of Bills

b) Related Party Transactions

c) Accounting estimate.

d) Customized Accounting software

e) Neutrality of Financial statements

Answer

6 a) Among the various function carried out by a bank, the two important ones are those relating to discounting of bills and acceptance and endorsement of bills on behalf of customers. A bank may either straight way purchases a bill or any other credit instrument from a customer on may collect it on his behalf. If it purchases or discounts the bill the amount would be immediately credited to the account of the customer less discount charges and debited to Discounted bills Account. This account is an asset. If, on the other hand, a bill is to be

collected for a customer, the particulars of the bill would be recorded in a special book known as "Bill for collection Register". Any book entry would not be required until the bill is collected. On collection, cash will be debited with the full amount received and the customer's account will be credited after deducting the amount of the commission. Bills held for collection are to be shown by way of note below the Balance Sheet as per requirement of new forms.

6 b) NAS 24 requires disclosure of related party transactions and outstanding balances in the separate financial statements of a parent, venture or investor company or entity. The following information shall be disclosed in the financial statements as per this Accounting Standard.

- Relationship between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties.
- An entity shall disclose key management personnel compensation.
- If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Items of the similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

6 c) Accounting estimate approximates a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Because of the uncertainties inherent in business activities, some financial statement items can only be estimated. Further, the specific characteristics of an asset, liability or component of equity, or the basis of or method of measurement prescribed by the financial reporting framework, may give rise to the need to estimate a financial statement item. These are called accounting estimates. Accounting estimates are required to enhance the timeliness & relevancy of the financial statements without trading off on reliability. The current financial Examples of estimation in some fields are:

(i) Estimation of useful life of depreciable assets.
(ii) Fair value estimation
(iii) Determining the stage of completion of construction contracts

6 d) Customized accounting software is one where the software is developed on the basis of requirement specifications provided by the organization. The choice of customized accounting software could be because of the typical nature of the business or else the functionality desired to be computerized is not available in any of the pre-packaged accounting software. An organization desiring to have an integrated software package covering most of the functional area may have the financial module as part of the entire customized system.

6 e) One of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.

Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e. they must be neutral.

Paper 2: Audit and Assurance

Attempt all questions.

1. As an auditor, give your opinion with explanations on the following cases: **(4×5=20)**

   HDL Ceramics Ltd, Bhaktapur purchased and assembled plant at Madhyapur which has been declared by municipality as not meeting the requirements of environment laws of municipality which have been recently enacted. The asset has to be destroyed as per the law. The asset is carried in the Balance Sheet at the year end at Rs. 55,00,000. The estimated cost of destroying the asset is Rs. 7,00,000. The accountant wishes to charge off assets in next 7 years.

a) In the financial statements of PQR limited, carrying amount of Land and building is Rs. 10 lakh as on year end 2078. In FY 2078-79 land and building has been revalued and the revalued amount of land and building is Rs. 14 Lakh. The company wants to recognize revaluation gain in profit or loss

b) Mr. Prem accountant of Small Limited argued that the company has been in operation for 20 years, therefore there is no need to make assessment of going concern while preparing the financial statements.

c) ***GOT Resort Pvt. Ltd. has taken loan to construct its building. However, before the assets could be completely constructed and put to use, the construction got delayed due to lockdown as a result of COVID-19 pandemic. Now, as the statutory auditor, you need to give your opinion on the treatment of the interest on the loan during the lockdown period.***

Answer:

a) As per NAS 36 on Impairment of Assets, impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount, where recoverable amount is the higher of an asset's net selling price and its value in use·. In the given case, recoverable amount will be nil [higher of value in use (nil) and net selling price (Nil)]. Thus, impairment loss will be calculated as Rs. 55,00,000 [carrying amount (Rs. 5500,000) – recoverable amount (nil)].

Therefore, asset is to be fully impaired and impairment loss of Rs. 55,00,000 has to be recognized as an expense immediately in the statement of Income as per NAS. Further, cost of destroying the assets shall also be recognized as expense.

b) As per Nepal Accounting Standards -16 "Property, Plant and Equipment" if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

In the given case carrying amount of land and building of PQR limited has been increased after revaluation and the company wants to recognise such revaluation gain in profit or loss which is not correct as per NAS 16. Revaluation gain should be recognised in other comprehensive income and such amount should be accumulated in revaluation reserve. Recognition of revaluation gain in profit or loss is permitted only to the extent revaluation loss previously recognised in profit or loss. Hence the contention of the company to recognise the revaluation gain in profit or loss is not correct as per NAS 16.

c) Going concern is an underlying assumption that is used by an entity while preparing financial statements. Under the going concern assumption entity is viewed as continuing business for the foreseeable future. As per NAS 1 “Presentation of Financial Statements” entity shall make assessment of entity’s ability to continue as going concern while preparing financial statements. An entity shall prepare its financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. While doing assessment management shall consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting date. Hence, contention of the accountant of Small Limited is not correct as per NAS-1, the company shall make assessment of going concern assumption while preparing the financial statements.

d) Interest on loan taken to acquire qualifying assets can be termed as borrowing cost. Nepal Accounting Standard – 23 deals with the accounting of borrowing cost. It states that borrowing costs should be recognized as an expense in the period in which they are incurred. However, as per alternative treatment, borrowing costs that are directly attributable to the acquisition or construction of any asset should be capitalized as part of the cost of that asset. In the above case the loan has been solely taken for the purpose of constructing the asset and hence needs to be capitalized up to the put-to-use phase. However, the standard also specifies that **an entity shall suspend capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset.** An entity may incur borrowing costs during an extended period in which it suspends the activities necessary to prepare an asset for its intended use or sale. Such costs are costs of holding partially completed assets and do not qualify for capitalization. Hence in the above case, the interest on loan during the lockdown period should not be capitalized and should be charged to the profit & loss account.

2.

Give your comments on the following cases: **(4×5=20)**

a) ABC Associates, Chartered Accountants is entrusted with keeping track of money received from international agency including handling the money belonging to such agency. ABC Associates deposited such amount in bank account of ABC itself; however, record is kept separately.

b) BTS & Associates, Chartered Accountants, were appointed as the auditor by the annual general meeting of DMK Ltd. for the financial year 2078/79. This was their first appointment as an auditor of this company. During the course of the audit, after performing all required audit procedures, the auditor was unable to obtain sufficient appropriate audit evidence concerning opening balances. Briefly outline your role as an auditor.

c) Mr. Ram, an auditor of Cold Drink Company has obtained the trade secret formula during audit process. A Case was lodged against Cold Drink Company for putting non-edible components in the drink. Subsequently, auditor was called by Supreme Court to provide documents and his knowing in the cold drink formulae. He shared the information; he has received on formula of Cold Drink Company. Mr. Hari lodged complaints to ICAN that, Mr. Ram has violated the Code of Ethics on the ground of breach of confidentiality.

d) PQ Ltd is engaged in trading of electronic goods and having huge debtors. For analysing the whole accounts receivables, auditor wanted to use sampling technique. In considering the characteristics of the population from which the sample will be drawn, the auditor determines that stratification or value-weighted selection technique is appropriate. NSA 530 provides guidance to the auditor on the use of stratification and value-weighted sampling techniques. Advise the auditor in accordance with NSA 530.

Answer:

a) As per section 350 of the code of ethics, 2018 issued by the Institute, a professional accountant in public practice entrusted with money (or other assets) belonging to others shall:

- Keep such assets separately from personal or firm assets;
- Use such assets only for the purpose for which they are intended;
- At all times be ready to account for those assets and any income, dividends, or gains generated, to any persons entitled to such accounting; and
- Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets

On backdrop of above ethical requirements, the ABC Association's act of mixing up the clients' moneys with their own money (depositing in same bank account) cannot considered appropriate. So, they cannot deposit the amount in same account.

b) As stated in NSA 510 "Initial Engagements-Opening Balances", for initial audit engagements, the auditor should obtain sufficient appropriate audit evidence that: i) The opening balances do not contain misstatements that materially affect the current period's financial statements; ii) The prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated; and iii) Appropriate accounting policies are consistently applied or changes in accounting policies have been properly accounted for and adequately presented and disclosed.

As per para 10 of NSA 510, if the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion, or disclaim an opinion on financial statements.

So, considering the effect of such unavailability of audit evidence, the auditor should modify his audit report.

c) Section 114 of Code of Ethics of ICAN, specifies about the Confidentiality to be observed by members and professional accountants. The principle of confidentiality imposes an obligation on all professional accountants to refrain from: (a) Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and (b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

However, section 114.1 A1, outlines circumstances where professional accountants is required to disclose confidential information or when such disclosure is appropriate and once such circumstances arise as required by law, for example i.e. production of documents or other provision evidence in the course of legal proceedings.

In the given case, as auditor was called on by the court. Therefore, he has legal responsibility to give information to the court purposes. So, this cannot be considered as breach of confidentiality.

d) **Stratification and Value-Weighted Selection:** In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection technique is appropriate. NSA 530 provides guidance to the auditor on the use of stratification and value-weighted sampling techniques.

Stratification: Audit efficiency may be improved if the auditor stratifies a population by dividing it into discrete sub-populations which have an identifying characteristic. The objective of stratification is to reduce the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk.

When performing tests of details, the population is often stratified by monetary value. This allows greater audit effort to be directed to the larger value items, as these items may contain the greatest potential misstatement in terms of overstatement. Similarly, a population may be stratified according to a characteristic that indicates a higher risk of misstatement, for example, when testing the allowance for doubtful accounts in the valuation of accounts receivable, balances may be stratified by age.

The results of audit procedures applied to a sample of items within a stratum can only be projected to the items that make up that stratum. To draw a conclusion on the entire population, the auditor will need to consider the risk of material misstatement in relation to whatever other strata make up the entire population. If a class of transactions or account balance has been divided into strata, the misstatement is projected for each stratum separately. Projected misstatements for each stratum are then combined when considering the possible effect of misstatements on the total class of transactions or account balance.

Value-Weighted Selection: When performing tests of details, it may be efficient to identify the sampling unit as the individual monetary units that make up the population. Having selected specific monetary units from within the population, for example, the accounts receivable balance, the auditor may then examine the items, for example, individual balances, that contain those monetary units. One benefit of this approach to defining the sampling unit is that audit effort is directed to the larger value items because they have a greater chance of selection and can result in smaller sample sizes.

This approach may be used in conjunction with the systematic method of sample selection and is most efficient when selecting items using random selection.

3. Answer the following: **(3×5=15)**

a) "Sampling risk can lead to erroneous conclusion". Discuss in Brief.

b) Obtaining an understanding of the entity and its environment, including the entity's internal control, is a continuous, dynamic process of gathering, updating and analysing information throughout the audit. Explain giving examples.

c) What are Analytical Audit procedures? Briefly describe the basic types of Analytical procedures.

Answer:

a) As per Nepal Standards on Auditing 530 "Audit Sampling", Audit Sampling involves the application of audit procedures to less than 100% of items within an account balance or class of transaction such that all sampling units have a chance of selection. Audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which sample is drawn.

Sampling risk represents the possibility that an auditor's conclusion based on a sample is different from conclusion if the entire population were subject to audit. Auditor only apply audit procedures on transactions covered in sample taken from the population while using audit sampling technique and transaction not covered in sample shall be ignored. Sample should represent the population from which sample is being drawn. If the sample is not representative of population, it is true that sampling risk could lead to incorrect conclusion that material misstatement exists in financial statements in fact, they do not exist at all, this type of risk affects audit efficiency and usually lead to additional work to establish that initial concern were incorrect or auditor may conclude that material misstatements do not exist but in fact they do exist in the financial statements. Auditor can lower the sampling risk by increasing sampling size.

b) Obtaining an understanding of the entity and its environment, including the entity's internal control, is a continuous, dynamic process of gathering, updating and analysing information throughout the audit. The understanding establishes a frame of reference within which the auditor plans the audit and exercises professional judgment throughout the audit, for example, when:

- Assessing risks of material misstatement of the financial statements as per NSA 315;
- Determining materiality in accordance with NSA 320;
- Considering the appropriateness of the selection and application of accounting policies;
- Identifying areas where special audit consideration may be necessary, for example, related party transactions, the appropriateness of management's use of the going concern assumption, or considering the business purpose of transactions;
- Developing expectations for use when performing analytical procedures as per NSA 520;
- Evaluating the sufficiency and appropriateness of audit evidence obtained, such as the appropriateness of assumptions and of management's oral and written representations.

c) As per NSA 520, Analytical procedure involves evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. Following are the basic types of analytical procedures:

i. **Simple Mathematical Comparison –** General arithmetical increase or decrease in absolute terms or in percentage gives idea about class of transaction or amounts presented and disclosed in financial statements. Year to year basis or in relation to other items of the same year.

ii. **Ratio Analysis**

Ratios are expressed as one financial statement data in relation to another. For example, current ratio is calculated by dividing current assets with current liabilities. Auditors use ratio analysis in their audit to compare ratios for the current year with ratios for a prior year, budget or an industrial average. Any material differences in the ratios must be explained by the auditors.

iii. **Trend Analysis**

Trend analysis refers to the comparison of a current balance with a previous year's balance. An auditor may choose to use either the diagnostic or casual approach. The diagnostic approach is used to evaluate if a balance of a current account deviates significantly from the trend established in the previous year's balances for that account. In the casual approach, the auditor calculates a balance expected for the account then compared to the actual amount.

4. Answer/Comment on the following: **(3×5=15)**

a) "The rendering of two or more types of professional services concurrently does not by itself impair the integrity, objectivity or independence". Comment.

b) ***Mr. X, a Chartered Accountant in practice enters into an agreement with Mr. Y, an individual who has passed one group of CAP-III few years back. The agreement provides that Mr. Y shall work in all professional engagements of Mr. X and shall receive 15 percent of fee received from such***

assignments as remuneration. Explain whether the agreement is in compliance with the prevailing law and the Code of Ethics or any other relevant reference?

c) Offer from audit client as costly gifts may create threats to compliance with the fundamental principles. In this context, explain the provision on 'Gift and hospitality' as explained in Code of Ethics.

Answer

a) A firm might provide multiple services to the client concurrently. Providing two or more professional services to the client in itself does not impair integrity, objectivity or independence of the auditor. However, there are more chances that fundamental ethical principles are in threat in such circumstances.

While doing so, the auditor shall be alert whether there arises the threat to the fundamental principles.

In such situation, a conflict of interest may create threats to compliance with the fundamental principles of integrity, objectivity, and independence. The auditors shall not engage in activities incompatible with the Practice of Public Accountancy.

Professional accountant in public practice should not concurrently engage in any business, occupation or activity which impairs or might impair integrity, objectivity or independence, or the good reputation of the profession and therefore would be incompatible with the rendering of professional services.

Simultaneous engagement in another business, occupation or activity unrelated to professional services which have the effect of not allowing the professional accountant in public practice properly to conduct a) professional practice in accordance with the fundamental ethical principles of the accountancy profession should be regarded as inconsistent with the practice of public accountancy.

So, professional accountants shall always be alert while accepting two or more services concurrently to the clients.

b) As per section 34(3) of Nepal Chartered Accountants Act, 1997, one shall not share the auditing fees or remuneration or distribute as profit with any person other than a member of the institute and shall not pay any commission, brokerage, etc. out of the professional fees earned to any person or member.

Agreeing into agreement with the person who is not a member of the institute is also against the legal provision and code of ethics.

In the above case also, Mr. X a Chartered Accountant in practice enter into agreement to share auditing fees. So, Mr. X would be held guilty of professional misconduct.

c) Section 340 of the code of ethics provides guidance on inducements, including the gifts and hospitality. A professional accountant in public practice, or an immediate or close family member, may be offered gifts and hospitality from a client. Such an offer may create threats to compliance with the fundamental principles. For example, a self-interest or familiarity threat to objectivity may be created if a gift from a client is accepted; an intimidation threat to objectivity may result from the possibility of such offers being made public.

The existence and significance of any threat will depend on the nature, value, and intent of the offer. Where gifts or hospitality are offered that a reasonable and informed third party, weighing all the specific facts and circumstances, would consider trivial and in consequential, a professional accountant in public practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the professional accountant in public practice may generally conclude that any threat to compliance with the fundamental principles is at an acceptable level.

A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice shall not accept such an offer.

5. Answer/Comment on the following: **(2×5=10)**

a) CLL & Associates, a chartered accountant's firm has a history of more than 10 years in auditing and accounting services in Nepal. Mr. Big and Mr. Small were partners of CLL & Associates. However, they have recently discontinued their partnership and opened separate audit firm by each partner in FY 2078-79. Nepal Limited was the client of CLL & Associates and the firm has completed the 3rd term of appointment with the company in FY 2077-78. Nepal Limited wants to appoint Mr. Big as an auditor for FY 2078-79.

b) Discuss about the provisions relating to appointment of auditors for corporate bodies substantially owned by the government.

Answer:

a) As per provision specified in the section 111 of Companies Act, 2063, companies shall appoint auditor for the audit amongst the auditors licensed to carry out audit. However, in case of public company, no auditor or his/her partner or ex-partner or employee or ex-employee shall be appointed as auditor for more than three consecutive terms to perform the audit provided, however that this restriction shall not apply to any partner who ended partnership or any employee who left the service of such auditor 3 years before. In the given case CLL & Associates has already been appointed as auditor of Nepal Limited for 3 consecutive years. In the given case, for FY 2078-79, Nepal Limited wants to appoint ex-partner of CLL & Associates as auditor which results to non-compliance of section 111(3) of Companies Act, 2063. Hence Nepal Limited should not appoint Mr. Big as an auditor of the company for FY 2078-79.

b) **Audit of corporate bodies substantially owned by the government:**

As per section 11 of Audit Act, 2075 (2019), a corporate body substantially owned by the government may appoint an auditor and have its accounts audited by the auditor subject to the principles specified by the Auditor General. In appointing an auditor pursuant, the corporate body shall consult the Auditor General. The concerned corporate body shall forward a copy of the report presented by the auditor appointed to the Office of the Auditor General, as well.

If, from the report received, there appears any error in the accounts of such a corporate body, the Auditor General may give necessary directives to the concerned corporate body and the auditor in respect of such error, and it shall be the duty of the concerned body and auditor to abide by such directives. The concerned corporate body shall submit progress details of implementation, within the specified period by the Auditor General in respect of the matters indicated by the report received and the directives given by the Auditor General.

6. Write short notes on the following: **(4×2.5=10)**

a) Professional skepticism
b) Internal Check
c) Audit Working Papers
d) Written (Management) Representation Letter

Answer:

a) It is a state of mind having a questioning mind and refers to being alert to anything that may indicate misstatement due to error or fraud. It involves critically assessing audit evidence.

It is a requirement of NSA 200 that, when planning and performing an audit, the auditor should adopt an attitude of professional skepticism. Professional skepticism is defined by NSA 200 as an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

This does not mean that the auditors should disbelieve everything they are told, but they should view what they are told with a sceptical attitude and consider whether it appears reasonable and whether it conflicts with any other evidence. In other words, they must not simply believe everything management tells them.

b) Internal check means the management of duties in such a manner that the work of one person is automatically checked by other person during execution of normal duty. It is a part of overall control system and operates basically as a built-in-device as far as organisation and job-allocation aspects of the controls are concerned. The system provides existence of checks on the day-to-day transactions which operate continuously as part of the routine system whereby the work of each person is either proved independently or is made complimentary to the work of another.

c) Audit working papers are the evidenced obtained/ created by the auditor during the audit. It constitutes the link between the auditor’s report and the client’s record. These documents are considered as the property of the auditor. Audit working papers are documents prepared or obtained from the client and retained by auditor in connection with the audit. Audit working papers are means of controlling audit work, evidence of work performed by the auditor, information about the client and supporting documents related to accounts under audit.

d) NSA 580 “Written Representations” establishes standards and provide guidance on the use of management representations as audit evidence, the procedures to be applied in evaluating and documenting management representations, and the action to be taken if management refuses to provide appropriate representations.

The management representation as audit evidence:

- During an audit, management makes many representations to the auditor, either unsolicited or in response to some specific enquiries.
- The auditor also should obtain representation from management, where considered appropriate and necessary.
- The management representation is taken to corroborate audit evidence, but representations by management cannot be a substitute for other audit evidence that the auditor could reasonably expect to be reasonably available.
- In certain cases, where knowledge of facts is confined to management, a representation by management may be the only audit evidence, which can reasonably be expected to be available.

7. Distinguish between: **(2×5=10)**

a) Verification and Vouching in Audit

b) Audit Reports and Audit Certificates

Answer:

a) The distinction between vouching and verification can be made as under:

S.N.	**Vouching**	**Verification**

1	It pertains to entries relating to transaction recorded in books	Verification relates to the assets and liab appearing in the balance sheet.
2	Vouching is usually done throughout the year	Verification is generally carried out at the e year.
3	To verify the completeness, accuracy and validity of transactions	To confirm the existence, ownership, posse completeness, valuation and disclosure of relating to balance sheet.
4	vouching is based only on documentary examination	Verification is based on observation as we documentary examination.
5	Vouching is a routine matter, which is generally conducted by junior staff of audit clerks	Verification requires experienced people and do the senior staff.
6	Vouching does not include valuation	Verification includes valuation.

b) The term 'certificate' is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion. When an auditor certifies a financial statement, it implies that the contents of that statement can be measured, and that the auditor has vouchsafed the exactness of the data. The term certificate is, therefore, used where the auditor verifies certain exact facts. An auditor may thus, certify the circulation figures of a newspaper or the value of imports or exports of a company. An auditor's certificate represents that he has verified certain precise figures and is in a position to vouch safe their accuracy as per the examination of documents and books of account.

An auditor's report, on the other hand, is an expression of opinion. When we say that an auditor is reporting, we imply that he is expressing an opinion on the financial statements. The term report implies that the auditor has examined relevant records in accordance with generally accepted auditing standards and that he is expressing an opinion whether or not the financial statements represent a true and fair view of the state of affairs and of the working results of an enterprise. Since an auditor cannot guarantee that the figures in the balance sheet and profit and loss account are absolutely precise, he cannot certify them. This is primarily because the accounts itself are product of observance of several accounting policies, the selection of which may vary from one professional to another and, thus, he can only have an overall view of the accounts through normal audit procedures.

Therefore, the term certificate cannot be used in connection with these, statements. Thus, when a reporting auditor issues a certificate, he is responsible for the factual accuracy of what is stated therein. On the other hand, when a reporting auditor gives a report, he is responsible for ensuring that the report is based factual data, that his opinion is in due accordance with facts, and that it is arrived at by the application of due care and skill.

Paper 3: Corporate and Other Laws

Attempt all questions.

1. Answer the following questions: **(5×5=25)**

a) Mr. Lal, a newly appointed Company Secretary of Buddha Steel Ltd, has heard that Company should submit Annual Return under Section 78 of Companies Act, 2063, but does not know when it should be submitted and what matters it should contain. As you are corporate consultant, he approaches you. Advise Mr. Lal regarding the provisions of submission of Annual Return under Section 78 of Companies Act, 2063.

b) Shree Bank Ltd has 3020 shareholders of which 10 are female shareholders. Annual General Meeting of Bank conducted on Chaitra 3, 2078 has elected 6 Directors all male members and Board of Directors has appointed a male Professional Director. Ms. Sunita Chaudhary a shareholder of the bank claim that the constitution of Board of directors is not as per the provision of the Company Act 2063.

c) Pushpa Singh, a Nepali national currently living in Germany wants to establish an agro tech industry in Nepal and authorizes Alok Rai to register a company under a power of attorney with the objectives to be included in the memorandum of association. The company is duly registered and obtained the certificate of incorporation. Pushpa, afterwards, found the objectives of the company were beyond the power of attorney and not related to agro tech business but real estate business. He consults to cancel the registration of company. Advise him as to the validity of registration.

d) Hansraj, a statutory auditor of Spring Water Pvt. Ltd. resigned from the post showing his personal inability to conduct audit. So, the BOD called EGM and proposed Mr. Kiran Karna as an auditor but the resolution failed and there is no chance of appointing of another auditor from the general meeting. Therefore, it was suggested appointing the auditor by the Office of Company Registrar. Give your opinion-

i. When the office can appoint the auditor of a company? [4]
ii. Can auditor be appointed by the office in the above situation? [1]

e) The Board of Directors of Laligurans Bank passed a resolution to purchase ATM machines from Asus Tech & Manufacturers Ltd. Accordingly, a deed of contract drafted and duly signed by the directors on behalf of the bank. Some of the shareholders of the bank questioned the validity of the contract as three out of five directors were disqualified at the time of agreement. Give your opinion as to the effect of disqualification to the validity of contract.

Answer:

a) According to *Section 78* of the Companies Act 2063, every public company shall prepare a report mentioning the following matters and submit it with the Registrar's of Companies, 21 days ahead of holding an Annual General Meeting (AGM). Such report has to be approved by the Board of Directors and certified by the auditor of the company.

The following matters shall be include in the report:

- The total number of shares allotted, fully paid and partly paid shares out of the allotted shares

- Particulars of director, managing director, auditor chief executive, manager and amount of remuneration, allowance and facility paid to them.
- Name of corporate or individual who subscribes 5% or more of the paid up capital of the company, and the details of shares or debentures held in their names
- The total proceeds of the sale of shares, particulats of the new share and debenture issued and raised by the company in the financial year concerned
- The amount due and payable by the directors or substantial shareholder or his/her close relative to the company
- The details of payment made or to be made against the sale of shares or for any other matters
- The amount of loan borrowed from banks & financial institutions and principal and interest amount due and payable
- The number of expatriate (foreign) employees engaged in the management of the company and other levels, and remuneration, allowance and facilities paid to them.
- The amount of claimed to be receivable and payable by the company to any other person or details of lawsuits if any, ongoing in this respect
- Where any agreement has been entered into between the company and any foreign body or person on investment, management or technical services or other matter for a period of morethan one year, particulars thereof and the particulars of the dividend, commission, fees, charge and royalty, as well paid under such agreement in the financial year concerned.
- A statement of the management expenditures of the company in a financial year.
- The amount of dividend yet to be claimed by the shareholders.
- A declaration that the company has fully observed the Companies Act and the prevailing law
- Other necessary matters

b) Section 86 of the Companies Act, 2063 had made provision of Board of Directors and number of directors of a Company.

As per the Section 86 of the Companies Act, 2063,

1) The appointment and number of directors of a private company shall be as provided in its Articles of Association. However, shall not be more than 11.
2) Every public company shall have a board of directors consisting of a minimum of three and a maximum of eleven directors. In case of company having female share holder Board of Directors should have at least one female director.
3) at least one independent director, in case of the number of directors not exceeding seven and at least two independent directors, in case of the number of directors exceeding seven, shall be appointed from amongst the persons who have the qualification prescribed in the Articles of association of the Company and gained knowledge and experience in the subject related with the business of the concerned company.
4) Any one director selected by the directors from amongst themselves shall be the chairman of the board of directors.

The company does not have female director as required by Companies Act, 2063, we can conclude that the company had not complied, the provision of Companies Act, 2063 regarding appointment of female director as there is female shareholder in the company. Thus the claim made by Ms. Sunita Chaudhary is valid.

c) Section 5 of the Companies Act, 2063 had made the provision regarding registration and incorporation of Company.

As per section 5(1) of the Companies Act, 2063 “Where an application is made for the incorporation of a company pursuant to Section 4, the Office shall, after making necessary inquiries, register such company within 7 days after the date of making of the application and grant the company registration certificate to the applicant, in the format as prescribed.”

As per section 5(2) of the Companies Act, 2063, after a company has been registered pursuant to Sub-section (1), the company shall be deemed incorporated.

As per section 5(4) of the Companies Act, 2063, After the incorporation of a company under this Section, subject to this Act, the matters contained in the memorandum of association and the articles of association shall be binding on the company and its shareholders as if these where the provisions contained in separate agreements between the company and every shareholder and amongst its shareholders.

On purview of the above-mentioned provision, the certificate is treated as conclusive evidence of incorporation of a company and cancellation of registration of company shall not be permitted.

Therefore, Mr. Pushpa cannot make objection and the registration process being valid the certificate of incorporation cannot be cancelled on the ground that the objectives of the company were not in accordance with the power of attorney given by him and, therefore, the provision of the law had not been complied with.

(d) (i) The companies Act, 2063 seeks to ensure that the appointment of an auditor should not be carried out by the board of the directors. That is why it is vested in the general body of shareholders.
Section 113 provides that where the annual general meeting of a company fails to appoint an auditor for any reason or where the annual general meeting itself cannot be held or where the auditor appointed pursuant to this Act ceases to continue his office for any reason, the Office may, at the request of the board of directors of the company, appoint another auditor.

Therefore, the casual vacancy of auditor is fulfilled by the Office of the Company Registrar whether the auditor is vacant by reason of resignation or other causes.

(ii) In the given situation where the company's annual general meeting fails to appoint an auditor, the office may appoint another auditor under the section 113 of the Companies Act, 2063.

(e) Company being a legal person its business and affairs are carried on by its directors who are considered as the representatives of the shareholders. Section 89(1) of the Companies Act, 2063 has listed the various circumstances where a person becomes disqualified to be a director. In general, the act done by disqualified board of directors cannot get validity and binding to the company.

Section 106 of the Companies Act, 2063 provided that if it is afterwards discovered that any provision under this Act has not been complied with in respect of the appointment of any director, acts already done by such director him /her before the discovery of such fact shall not be rendered invalid by that fact.

Therefore, the resolution passed by the directors though disqualified and contract with Asus Tech is also valid and binding.

2. Answer the following questions: **(3×5=15)**

a) Mr. Chatur Bikram Thapa, a shareholder of the Bisesh Bank Ltd, holding 1 million share of the bank approach Bisesh Bank Ltd and want to take loan against the security of the share of the bank held by him. Whether Bisesh Bank Ltd can disburse loan to Mr. Chatur Bikram Thapa. What are the Acts restricted to carry out by the Bank or Financial Institution as per the Bank and Financial Institution Act 2073?

b) Sunshine Bank Ltd. had issued share capital of Rs. 12 billion. Board of Directors is in view that share capital of bank is more than required. BOD is considering buying back its own share. What are the conditions after fulfilling which a Bank or financial institution may buy back its share as per the provisions of Bank and financial Institution Act, 2073?

c) Deurali Bikas Bank, a proposed bank filed an application to NRB for the prior approval for its incorporation. It was found that one of the proposed bank's major investors was convicted for 5 years in jail in a case of murder. The concerned authority of NRB asked for your opinion whether NRB can refuse to grant the prior approval on the said ground. Referring the relevant provisions of the BAFIA, 2073, give your advice in the following matters-

i) What are the grounds of refusal to give prior approval for the incorporation of BFIs? [4]
ii) Can NRB refuse to grant the prior approval on the said ground? [1]

Answer:

a) Section 50 of the Bank and Financial Institution Act 2073 make provision regarding acts not to be carried out by Bank or Financial Institution:

As per the Section 50 of the Bank and Financial Institution Act 2073, A bank or financial institution shall not have to carry out or cause to be carried out any of the following acts:-

a) To purchase and sell goods for commercial purpose, purchase immovable property and to construct building except those are necessary for its own use,
b) To disburse credit against security of one's own shares,
c) To provide any type of credit facility to the Directors, person having subscribed one percent or more than that of the paid-up capital, Chief Executive, or a member of family of such persons, or the firm, company or organization having significant ownership or financial interest in any person, firm, company, or organization having authority to nominate or appoint Director or managing agent,

d) To provide any type of credit or facility exceeding per customer limit prescribed by the Rastra Bank from its capital fund to the single customer, company, companies or partnership firms of the same group and relevant person.
e) To provide any type of credits to any person, firm, company, or institution on the guarantee of promoters, Directors, or Chief Executive,
f) To make investment in the securities of the bank or financial institutions of class “A”, “B” and “C”, classified by the Rastra Bank,
g) To invest the amount more than the limit as prescribed by the Rastra Bank in share capital of other institution,
h) To create any type of monopoly or other type of restrictive practices in banking and financial transactions in collusion of banks or financial institutions,
i) To commit in any act to create an artificial hurdle in competitive environment in financial sectors with a intention to get undue advantage,
j) To carry out any other functions which are prescribed by the Rastra Bank as the functions are not carried out by a bank or financial institutions.

On the basis of the above-mentioned provision if total holdings of Mr. Chatur Bikram Thapa i.e 1 million share is 1 percent or more than that of the paid of capital of Bisesh Bank ltd then the bank should not disburse loan to him.

b) Section 13 (1) of the Banks and Financial Institutions Act, 2073, provides that bank and financial institution cannot buy back its own share or provide loan against the security of its own shares.

However, section 13(2) of the Act, provides that in the following circumstances, a bank or financial institution may, with the approval of the Nepal Rastra Bank, purchase its shares out of its free reserves available for being distributed as dividends not exceeding the percentage prescribed by Nepal Rastra Bank.

- If the shares issued by the bank or financial institution are fully paid up,
- If the shares issued by the bank or financial institution have already been listed in the securities market,
- If the buy-back of own shares is authorized by the Articles of Association of the concerned bank or financial institution,
- If a special resolution has been adopted at the General Meeting of the concerned bank or financial institution authorizing the buy-back of own share,
- If the ratio of the debt owed by the bank or financial institution is not more than double of the capital and general reserve fund after such buy-back of shares,
- If the value of shares to be bought back by a bank or financial institution is not more than twenty percent of the total paid up capital and general reserve fund of that bank or financial institution,
- If the buy-back of shares comply with the directives relating to capital fund issued by the Rastra Bank to the bank or financial institution,

- If it is not against the directives issued by the Rastra Bank from time to time with regard to buy back of shares.

The licensed institution shall have to apply to Nepal Rastra Bank for approval of such buyback with the required details. If Nepal Rastra Bank finds it appropriate, it may give the approval to buy back the shares.

c) i Section 4 (1) of the BAFIA, 2073 has provided a mandatory provision that a prior approval from the NRB shall be obtained to incorporate the bank and financial institutions. Subsection (3) reads that no prior approval shall be granted to incorporate bank and financial institutions by the firm or company where the following persons or their family members have significant ownership:

a. Under regulatory action of NRB.
b. Convicted in banking offences.
c. Convicted in fraud, forgery, deceit.
d. Convicted for financial investment in money laundering and terrorist activities.
e. Convicted in corruption related offence.
f. Convicted in the grievous offences like rape, human trafficking, abduction, hostage etc.

ii As the murder shall be categorized in the grievous offences under subsection (3), the NRB can refuse to grant the prior approval for the incorporation of the proposed bank on the said ground.

3. Answer the following questions: **(2×5=10)**

a) The Securities Act of 2063 was enacted to regulate and manage the activities of securities markets and persons involved in the business of dealing in securities by regulating the issuance, purchase, sale, and exchange of securities for the purpose of protecting the interests of investors in securities. Describe the process by which a body corporate can issue securities under this Act.

b) Mr. Samyak had insured his car in Reliable General Insurance Limited. The insured car got into accident, Mr. Samyak made the claim but the insurance company refused to pay for the loss even after the surveyor’s final report. Suggest Mr. Samyak for the action forward to receive claim from insurance by lodging complain in the Insurance Board according to provisions of Insurance Act, 2049 with relevant case reference.

Answer:

a) The body corporate will issue its securities under the Securities Act, 2063 as follows:

Section 27 (1) states, a body corporate shall have to register securities to be issued by it with the Board prior to their issuance. For this a body corporate shall have to make an application in the prescribed format, accompanied by its Memorandum of Association, Article of Association, documents related with such securities, and the prescribed fees, to the Securities Board for registering securities pursuant to Sub-section (1).

Where an application is received the Securities Board shall make necessary inquiry into the matter and, if it considers appropriate to register such securities, register such securities in the register as prescribed, indicating the details of such securities and issue the securities registration certificate in the prescribed format to the concerned body corporate.

- Under section 28 where a body corporate allots or sells securities after registering such securities, the body corporate shall have to give a notice along with the details of securities so allotted or sold to the Securities Board within seven days.
- Upon receipt of a notice as referred as above, where it appears necessary to make the allotment and sale of such securities fair and informative for the interests of investors and the body corporate, the Securities Board may give necessary directive to the concerned body corporate. It shall be the duty of the concerned body corporate to abide by such directive.

- Under section 29 where a body corporate is to sell and distribute securities to more than fifty persons at a time, it shall make public issue for the sale and distribution of such securities. The period to be open for making application of the securities to be issued as above shall be as prescribed. The provisions relating to the value and allotment of securities for which public issue has to be made shall be as prescribed.

Where securities for which public issue has been made once could not be sold and have to be re-issued again within one year, the body corporate which so issues the securities may, with the approval of the Securities Board, issue such securities by mentioning the matters which are different than the matters set forth in the previously published prospectus and the prospectus previously published.

b) Issue: Mr. Samyak was denied claim for the insured car which got into accident and was insured with Reliable General Insurance Limited. Hence, Mr. Samyak wants to lodge complain with the Insurance Board.

Legal Provision:

Section 17 of the Insurance Act, 2049 mentions the liability of the insurance in case of claim. According to it, “Insurer shall be Responsible” as follows:

Section 17 (1) states that the Insurer shall pay the compensation in case any actions against the rights and interests of the Insurance Policy holders cause losses by the Insurer, employees of the Insurer, Insurance Agents or Surveyors.

Section 17 (2) states that the Insured may submit a complaint to the Insurance Board as prescribed, if the liability on the compensation for insurance claim is not assessed within the prescribed period of time or if the liability is assessed to the disadvantage.

Section 17(3) states that the Board shall make necessary investigation into the complaint submitted pursuant to subsection 2 of this section and shall provide a reasonable opportunity to the concerned Insurer to submit clarification upon such complaint.

Section 17 (4) states that if the clarification submitted by the Insurer pursuant to subsection 3 of this section is reasonable, the Board may cancel such complaint by mentioning its ground. If the clarification is not reasonable, the Board shall make a decision to pay the reasonable compensation to the complainant.

Section 17 (5) states that if the Board decides to give compensation to the complainant pursuant to subsection of this section, the Insurer shall pay such amount for the compensation to the concerned Insured.

Section 17 (6) states that if an appeal is made against a decision made by the Board to pay compensation to the complaint pursuant to subsection 4 of this section and the decision of the Board is upheld, the concerned Insurer shall promptly pay the compensation plus the interest on the amount of compensation to be set at the rate as prescribed, for the period from the date of original decision to the date of final settlement of the case.

Case Law:

Minu Pahari v The Oriental Insurance Company Limited
Subject Claim of motor insurance
Date of Decision 2055/02/22

The truck of Minu Pahari got accident. He made the claim of insurance with the company. The company does not pay the loss even after the surveyor's final report. The insured registered the claim in the board and the board ordered insurer to pay Rs 139,445.76. The grounds of the decision are as follows:

(a) From the final evaluation of the surveyor, the insurer first of all shall determine his liability for compensation and pay to the insured.

(b) The insured has made the claim amount of money in the basis of surveyor report for third party compensation. The insurer has not criticized the compensation according to the surveyor report. So, the insurer required paying the compensation to the third party & insured.

Conclusion:

Mr. Samyak should submit a complaint to the Board and can receive the reasonable compensation from the insurance company if Board decides so.

4. Answer the following questions: **(2×5=10)**

a) What are the functions, duties and power of Industrial and Investment Promotion Board specified under the Industrial Enterprises Act, 2076?
b) Collective bargaining and workers' voice are key labour rights, as well as potentially strong enablers of inclusive labour market. As the digital transformation, globalization and demographic changes, are re-shaping the labour market, collective bargaining is well placed to design solutions to emerging collective challenges. Outline the legal provision under the Labour Act, 2074
Answer:

a) Section 21(1) of Industrial Enterprise Act, 2076 has made provision of the Functions, Duties and Power of the Industrial and Investment Promotion Board. According to it major functions, duties and power of the Industrial and Investment Promotion Board has been prescribed as follows:
(a) to make recommendations to the Government of Nepal for the formulation of policies relating to industrial promotion, protection and promotion of investment and industrialization and adoption of relevant policy decisions;

(b) to regularly appraise the policy, institutional, legal, institutional and procedural framework and modus operandi relating to the overall industrialization of the country and make recommendations to the Government for necessary reforms;
(c) to make recommendations to the Government of Nepal for the adoption of necessary policy decisions on foreign investment and technology transfer, subject to the prevailing law;
(d) to make recommendations to the Government of Nepal for the formulation of policies relating to industrial pollution control and adoption of relevant policy decisions;
(e) to make comprehensive evaluation and appraisal of the situation of industrial development of the country and make suggestions and recommendations to the Government of Nepal for taking necessary steps;
(f) to hear grievances of entrepreneurs and resolve, or cause to be resolved, the problems and make guidance to the concerned bodies in this respect;
(g) to make recommendations to the Government of Nepal if it is required to make an alteration or change in the level, classification and nature of industries;
(h) to carry out, or cause to be carried out, studies, research woks and surveys as required in the context of enhancing domestic and foreign investment in the industrial sector;
(i) to do, or cause to be done, necessary work for building a competitive industrial environment, in effective coordination and harmonious collaboration with the public, private and cooperative sectors;
(j) to give policy guidelines on matters requiring coordination between the Province and Local Levels for the development and expansion of industrial enterprises, and make necessary provision for coordination;
(k) to facilitate the removal of the difficulty or confusion, if any, arising in the implementation of any law relating to industry;
(l) to coordination or facilitate with respect to the operation of the one stop service centre;
(m) to perform, or cause to be performed, other functions as prescribed.
b) Collective bargaining is the process of negotiating the employment terms between an employer and a group of workers. Section 116 (1) states any enterprise employing ten or more than ten labours shall have a collective bargaining committee as follows:
(a) A team of negotiating representatives designated on behalf of the elected authorized trade union of the enterprise,
(b) In cases where election to the authorised trade union referred to in clause (a) could not be held or where election has been held but its term has expired, a team of negotiating representatives nominated through mutual agreement of all the unions in the enterprise,
(c) In cases where there is no authorised trade union referred to in clause (a) or team referred to in clause (b), a team of representatives supported with the signatures of more than sixty percent of the labours working in the enterprise.

(2) The collective bargaining committee may submit collective claims or demands in writing to the employer on issues relating to the interest of the labors.

(3) Notwithstanding anything contained in sub-section (2), no collective claims or demands may be submitted on the following matters:
(a) A matter which is contrary to the Constitution of Nepal,
(b) A matter which contains an allegation with no evidence or basis and is thus contrary to the interest of anyone,
(c) A matter which affects the personal conduct of any employer or labour,
(d) A matter which is not related to the enterprise,

(e) Until the period specified in this Act lapses in cases where the collective agreement has been made,
(f) A matter relating to the rate of contribution and benefits specified for the social security scheme.

(4) The collective bargaining committee may consist of a maximum of three to eleven members as prescribed, on the basis of the number of labours.

(5) The collective bargaining committee formed pursuant to this Section shall have the powers including that to submit collective claims or demands, enter into agreement, file a case against any person or defend a case.

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5. Answer the following questions: **(2×5=10)**

a) CA. Chanchal, a Chartered Accountant in practice enters into an arrangement with Mr. Dina Nath, an advocate acting as a tax consultant whereby the two share the fees of professional work introduced to each other. Explain whether the arrangement is in accordance with the Nepal Chartered Accounts Act, 2053.
b) State the circumstances when a person cannot hold the membership of ICAN pursuant to the Nepal Chartered Accountants Act, 2053?

Answer:

a) According to Section 34 (3) of the Nepal Chartered Accountants Act 2053, one shall not share or distribute as profit the auditing fees or remuneration with any person other than a member of the institute and shall not pay any commission, brokerage etc., out of the professional fees earned to any person member.

In the given case, CA. Chanchal, a Chartered Accountant in practice enters into an arrangement with Mr. Dinanath an advocate acting as a tax consultant and share the fees of professional services introduced by each other.

Sharing of remunerations with a person other than a member would be in violation of the code of conduct. Accordingly, CA. Chanchal would be held guilty of professional misconduct since he agreed to share the fees with an advocate.

b) Pursuant to section 22 (1) of the Nepal chartered Accountants Act 2053, The Council may issue an order to remove the name of any member from the membership register, in any of the following circumstances:
(a) If the member is convicted by a court of a criminal offence involving moral turpitude and punished for such offence.
(b) If the member fails to pay the fees required to be paid to the Institute.
(c) If the member fails to abide by the professional conduct referred to in this Act and the Rules framed under this Act.
(d) If the member becomes insane; or
(e) If the member dies.

6. Answer the following questions: **(5×4=20)**

a) What are the functions, duties and powers of the Social Welfare Council as provided in the Social Welfare Act, 2049?
b) Under what circumstances the negotiable instrument deemed to be dishonoured and no presentment is necessary for its payment according to Negotiable Instruments Act 2034?
c) What do you understand by contract made by misrepresentation? State the validity of contract entered by misrepresentation. Answer it in the light of The National Civil, Code 2074.
d) List out the penalties to be imposed to an industry acting contrary to it's objectives under the Industrial Enterprises Act, 2076.
e) Highlight the role of WTO in the international business.

Answer:

a) The functions, duties and powers of the Social Welfare Council shall be as follows as provided in the section 9 of Social Welfare Act, 2049:

1. To run or cause to run the social welfare activities smoothly and effectively, to extend help to the social organizations and institutions and to develop co-ordinations among them and to supervise, follow up and carry out evaluations of their activities.
2. To extend or cause to extend help and support to establish social organizations and institutions, their development, strengthening and extensions.
3. To work or cause to work as co-coordinator between Government of Nepal and social organizations and institutions.
4. To provide consultancies to Government of Nepal in order to formulate policies and programmed directly related to social welfare activities and other social services.
5. To establish and conduct or cause to establish and conduct a fund, for the social welfare activities.
6. To work or cause to work as a center for dissemination of information and documentation to the affiliated service-oriented organizations and institutions with Council.
7. To conduct or cause to conduct trainings, studies and research programs in the areas with social welfare.
8. To carry out or cause to carry out the physical supervisions of the properties of those social institutions and organizations affiliated with the Council.
9. To carry out or cause to carry out the necessary functions to implement the objectives of this Act.
10. To make or cause to make contract or agreement with the local, foreign or international organizations and foreign countries.
11. To collect grant from the national and international agency and to manage the received grant.

b) According to Section 51 of the Act the Negotiable Instrument shall be deemed to be dishonoured in the following situation and no presentment is necessary for its payment:-

(a) If the maker, acceptor or drawee deliberately prevents the presentment of the Negotiable Instrument, or
(b) If the instrument being payable at the specified place, neither the payer or his Agent to pay it attends at such place during the business hours on a business day, or
(c) If the payer closes his/her office during the business hours on a business day, or

(d) If the Negotiable Instrument not being payable at any specified place, the concerned party cannot be found for the presentment after due search.

c) A contract means an agreement enforceable by law concluded between two or more parties for performing or not performing any work, enforceable by law.

A contract caused by misrepresentation means any contract entered by with the misrepresentation. Misrepresentation means any of the following acts:
(i) Presenting a false description of any matter or fact on without reasonable basis,
(ii) Misleading any party to his or her detriment,
(iii) Causing a mistake as to any matter of the contract,
(iv) Making assurance to have concluded a contract in one subject and but causing to enter into it in another subject.
As per Section 518 of The National Civil Code, 2074 a contract which is concluded by misrepresentation shall be deemed to be a voidable contract at the option of the aggrieved party. The person aggrieved party from the contracts concluded by misrepresentation may get the contract voided from the court. If not made void becomes valid.

d) Every industry has to act in accordance with its objectives mentioned at the time of registration. If an industry acts against to its objectives, the Ministry may, under subsection (2) of Section 43 of the Act, on the recommendation of the industry registration body, impose the following fine on the industry.

1. Micro-enterprise-	Not exceeding two thousand rupees
2. Cottage & small industry-	Not exceeding fifty thousand rupees
3. Medium industry-	Not exceeding one hundred thousand rupees
4. Large industry-	Not exceeding five hundred thousand rupees.

e) Overall, WTO was set up to play a very important role in the world economics though settling trade related disputes through rules, regulations and consensus-based agreement mechanisms that would prevent trade related wars between powerful countries. Through resolving trade related disputed WTO has got the potential to maintain world peace and bilateral relations between its member countries thorough following negotiations, consultations, and mediations. The fundamental role of WTO in international business can be listed as under-

- WTO facilitates implementation, administration and smooth operations of trade agreements between the countries.
- It provides a forum for the trade negotiations between its member countries.
- Settlements of disputes between the member countries through the established rules and regulations.
- It cooperates with the IMF (International Monitory Fund) and World Bank in terms of making cohesiveness in making global economic policies.

7. Write short notes: **(2×5=10)**
   a) Distinguish between promissory note and bill of exchange.
   b) Distinguish between Share and Debenture of a Company

Answer:

a)

Basis of Difference	Promissory Note	Bill of Exchange
1. Number of parties	There are two parties.	There are three parties.
2. Maker and payee	Maker and payee cannot be the same and single person.	Maker/ drawer and payee can be the same and single person.
3. Promise and order	There is a promise to pay a sum of money.	There is an order to pay a sum of money.
4. Acceptance	Acceptance is not required as it is signed by the person liable to pay on it.	Acceptance is necessary by the drawee before it can be presented for payment.
5. Nature of liability	Liability of the maker of a promissory note is primary.	Liability of the maker of a bill is secondary.
6. Payable to bearer	It cannot be drawn payable to bearer.	It can be drawn payable to bearer but not payable to bearer on demand.
7. Notice of dishonor	No notice is to be provided to the maker.	Notice is dishonor must be given to all prior parties.
8. Maker's position	Maker is in immediate relation with the payee.	Drawer is not in immediate relation with the payee.

b) **The distinguish between share and debenture as follows:**

S. No.	Distinction	A Share	A Debenture
1.	Meaning	The Shares are the owned funds of The Company.	The Debentures are the borrowed funds of the company.
2.	What is it?	Shares represent the capital of the Company.	Debentures represent the debt of the company.
3.	Form of Return	Shareholders get the dividend.	Debenture holders get the interest
4.	Payment of Return	Dividend can be paid to Shareholders only out of profits.	Interest can be paid to debenture holders even if there is no profit.
5.	Allowable deduction	Dividend is an appropriation of Profit and so it is not allow deduction.	Interest is a business expense and is allowed as deduction from Profit.
6.	Security for payment	No	Yes
7.	Voting Rights	The holders of shares have voting Rights.	The holders of debentures do not have any voting rights.
8.	Secured by charge	Share is not secured against any Charge.	Non-convertible debentures (NCD) are forever secured by a charge if there term is exceeding
7.	Convertibility	Equity shares cannot be converted.	Debentures are convertible.
8.	Repayment in the Event of winding up	Shares are repaid after the payment of all the liabilities.	Debentures get priority over shares and so, they are repaid before Shares.
9.	Holder	The holder of shares is known as Shareholder	The holder of debentures is known as debenture holder.

Examiner's Commentary on Students' Performance in June 2022 Examinations

Subject: Advanced Accounting

Questions	Specific Comments on the Performance of the Students
Question no. 1	Need more preparation.
Question no. 2	Satisfactory performance.
Question no. 3	Need more preparation.
Question no. 4	First part is well done but second part is not attempted by many students.
Question no. 5	Lack of conceptual clarity.
Question no. 6	Lack of theoretical knowledge in many students

Subject: Audit and Assurance

Questions	Specific Comments on the Performance of the Students
Question no. 1	None of the students could answer 1.a – weak in NAS and NFRS.
Question no. 2	No exact explanation.
Question no. 3	Very theoretical based answer.
Question no. 4	Satisfactory performance.
Question no. 5	Many students do not have knowledge of Audit Act. Only 5.a is answered correctly.
Question no. 6	Satisfactory performance.
Question no. 7	Only few students could answer difference between audit Report and audit certificate correctly.

Subject: Corporate and Other Laws

Questions	Specific Comments on the Performance of the Students
Question no. 1	a. Satisfactory performance. b. Satisfactory performance. c. Most students didn't understand the question. d. Satisfactory performance. e. Most students didn't understand the question.
Question no. 2	a. Satisfactory performance b. Almost all students did not give case law example. c. Almost all students wrote general provision specific.
Question no. 3	a. Poor writing. b. Almost all students did not give case law example.
Question no. 4	a. Satisfactory Answer. b. Incorrect answer.
Question no. 5	a. Satisfactory performance. b. Most of students wrote provision of section 8 rather than section 22.
Question no. 6	a. Answers are general and sketchy b. Students did not answer the question properly. c. Students did not answer the question properly. d. Students did not understand question properly.
Question no. 7	Satisfactory Performance of all questions.