

**SUGGESTED ANSWERS TO
THE QUESTIONS SET AT
CHARTERED ACCOUNTANCY PROFESSIONAL (CAP)-III LEVEL
JUNE 2022 EXAMINATIONS
GROUP-I**

The Institute of Chartered Accountants of Nepal (ICAN)

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Paper 1: Advanced Financial Reporting

1. Statements of financial position as at 31st Asadh 2078 of L, N and M Limited companies are as follows:

Assets:	L	N	M
	Rs. Million	Rs. million	Rs. million
Non-Current Assets			
Property plant and equipment	1,800.00	1,375.00	1,625.00
Investment properties	750.00	500.00	250.00
Investments in subsidiaries:			
N Ltd.	1,562.50		
M Ltd.	387.50	1,587.50	
Financial assets	400.00	26.25	176.25
	4,900.00	3,488.75	2,051.25
Current Assets	1,118.75	851.25	187.50
Total Assets	6,018.75	4,340.00	2,238.75
Equity and Liabilities:			
Equity			
Share capital	2,187.50	1,512.50	1,000.00
Retained earnings	1,550.00	1,162.50	437.50
Other components of equity	156.25	100.00	118.75
Total equity	3,893.75	2,775.00	1,556.25
Liabilities			
Non-current liabilities	1,231.25	956.25	187.50
Current liabilities	893.75	608.75	495.00
Total liabilities	2,125.00	1,565.00	682.50
Total Equity and Liabilities	6,018.75	4,340.00	2,238.75

Further information:

(i) On 1st Shrawan 2076, L acquired 14% of the equity interest of M for a cash consideration of Rs. 325 million and N acquired 70% of the equity interest of M for a cash consideration of Rs. 1,587.5 million. At 1st Shrawan 2076, the identifiable net assets of M had a fair value of Rs. 1,237.5 million, retained earnings were Rs. 237.5 million and other components of equity were Rs. 65 million.

(ii) On 1st Shrawan 2077, L acquired 60% of the equity interests of N. The cost of investment comprised cash of Rs. 1,562.5 million. On 1st Shrawan 2077, the fair value of the identifiable net assets acquired was Rs. 2,437.5 million and retained earnings of N were Rs. 812.5 million and other component of equity were Rs. 68.75 million. The excess in fair value is due to non-depreciable land. It is the group's policy to measure the non-controlling interest on acquisition at its proportionate share of the fair value of the subsidiary's net assets.

At 1st Shrawan 2077, the identifiable net assets of M had a fair value of Rs. 1,437.5 million, retained earnings were Rs. 300 million and other components of equity were Rs. 87.5 million. The excess in fair value is due to non-depreciable land. The fair value of the 14%

holding of L in M, which was classified as fair value through profit or loss, was Rs. 350 million at 31st Asadh 2077 and Rs. 387.5 million at 31st Asadh 2078. However, the fair value of N's interest in M had not changed since acquisition.

(iii) Goodwill of N and M were tested for impairment at 31st Asadh 2078 and found that there was no impairment relating to M. However, the goodwill of N was fully impaired by the reporting date.

(iv) On 1st Shrawan 2076, L acquired office accommodation at a cost of Rs. 112.5 million with a 30- year estimated useful life. During the year, the property market in the area slumped and the fair value of accommodation fell to Rs. 93.75 million at 31st Asadh 2077 and this was reflected in the financial statements. However, the market unexpectedly recovered quickly due to the announcement of major government investment in the area's infrastructure.

On 31st Asadh 2078, the valuer advised L that the offices should now be valued at Rs. 131.25 million. L has charged depreciation for the year but has not taken account of the upward valuation of the offices. L uses the revaluation model and records any valuation change when advised to do so.

(v) L announced two major restructuring plans during the year. The first plan was to reduce its capacity by the closure of some of its smaller factories, which had already been identified. This would lead to the redundancy of 500 employees, who had been individually selected and communicated to. The costs of this plan were Rs. 11.25 million in redundancy costs, Rs. 6.25 million in retraining costs and 6.25 million in lease equipment termination costs. The second plan is to re-organize the finance and information technology department over a one- year period but it does not commence until two years' time. The plan will result in 20% of finance staff losing their jobs during the restructuring. The costs of this plan are Rs. 12.5 million in redundancy costs, Rs. 7.5 million in retraining costs and Rs. 8.75 million in equipment lease termination costs. There are no entries made in the financial statements for the above plans.

(vi) The following information relates to the group pension plan of L:

	1 st Shrawan 2077	31 st Asadh 2078
	Rs. million	Rs. million
Fair value of plan assets	35	36.25
Actuarial value of defined benefit obligation	37.5	43.75

(vii) Contributions for the period received by the fund were Rs. 2.5 million and the employee benefits paid in the year amounted to Rs. 3.75 million. The discount rate to be used in any calculation is 5%. The current service cost for the period based on actuarial calculations is Rs. 1.25 million. The above figures had not been taken into account for the year ended 31st Asadh 2078 except for the contributions paid which were entered in cash and the defined benefit obligation.

Required:

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Prepare L Ltd. Group consolidated statement of financial position as at 31st Asadh 2078.

Answer

1) **L. Ltd. Group Consolidated statement of financial position as at 31st Asadh 2078**

Assets:	Rs. million
Non-current assets:	
Property, plant and equipment (1,800 + 1,375 + 1,625 + 43.75 + 50 + 40.75)	4,934.50
Investment properties (750 + 500 + 250)	1,500.00
Goodwill (W3)	497.50

Financial assets (400 + 26.25 + 176.25)	602.50
	7,534.50
Current assets(1,118.75 + 851.25 + 187.50)	2,157.50
Total assets	9,692.00
Equity and liabilities	
Share capital	2,187.50
Retained earnings (W5)	1,695.13
Other components of equity (W5)	212.62
Total equity attributable to shareholders of parent	4,095.25
Non-controlling interest (W4)	1,199.25
Total equity	5,294.50
Total non-current liabilities (1,231.25 + 956.25 + 187.50 + 7.50 -defined benefit liability)	2,382.50
Current liabilities (893.75 + 608.75 + 495 + 17.50 – provision for restructuring)	2,015.00
Total liabilities	4,397.50
Total equity and liabilities	9,692.00

Workings:

(W1) Group structure

The group effective interest in M Ltd is:

Direct interest	14%
Indirect interest or effective interest (60% x 70%)	42%
Group effective interest	56%
The NCI interest in M Ltd. is therefore (100% -56%)	44%
	100%
Consolidation of N Ltd.	
Group	60%
NCI (100% - 60%)	40%
	100%

The acquisition date for M Ltd. by L Ltd. is 1st Shrawan 2077, hence the day when L Ltd. gained control over N Ltd.; and therefore indirect control over M Ltd.

(W2) Net assets

N Ltd.	Acquisition Date (Rs. million)	Reporting Date (Rs. million)	Post-Acquisition (Rs. million)
Share capital	1,512.50	1,512.50	-

Other components of equity	68.75	100.00	31.25
Retained earnings	812.50	1,162.50	350.00
Fair value adjustment – Land (remaining figure)	43.75	43.75	-
	2,437.50	2,818.75	381.25
M Ltd.			
Share capital	1,000.00	1,000.00	-
Other components	87.50	118.75	31.25
Retained earnings	300.00	437.50	137.50
Fair value adjustment – Land (remaining figure)	50.00	50.00	-
	1,437.50	1,606.25	168.75

Therefore, the post-acquisition profits of N Ltd. is Rs. 381.25 million (Rs. 2,818.75 – Rs. 2,437.50) and that of M Ltd. is Rs. 168.75 million (Rs. 1,606.25 – Rs. 1,437.50).

(W3) Goodwill

The cost of M Ltd. has three elements: the cost of the direct holding, the cost of the indirect holding and the indirect holding adjustments.

N Ltd.	
	Rs. million
Fair value of consideration	1,562.50
NCI at acquisition (40% x Rs. 2,437.50)	975.00
Fair value of identifiable net assets acquired (W2)	<u>(2,437.50)</u>
Goodwill at acquisition	100
Impairment	(100)
Goodwill at reporting date	-
M Ltd.	
	Rs. million
Fair value of consideration:	
Direct holding (Fair value at date control obtained)	350.00
Indirect holding	1,587.50
Indirect holding adjustment (40% x Rs. 1,587.50 million)	(635.00)
NCI at acquisition (44% x Rs. 1,437.50 million)	632.50
Less fair value of identifiable net assets (W2)	<u>(1,437.50)</u>
Goodwill at reporting date	<u>497.50</u>
M Ltd. (Alternatively)	
	Rs. million

Fair value of purchase consideration:	
Direct holding	350.00
Indirect holding (60% x 1,587.50)	952.50
NCI at acquisition (44% x 1,437.50)	632.50
Less fair value of identifiable net assets (W2)	<u>(1,437.50)</u>
Goodwill at reporting date	<u>497.50</u>

L's investment in M was held at Rs. 387.50 million at the reporting date. Therefore, the fair value increase of Rs. 37.50 (Rs. 387.50 – Rs. 350 million) that has arisen since the date control was achieved must be removed from the consolidated statements. Retained earnings must also be reduced by Rs. 37.50 million.

(W4) Non-controlling interest

	Rs. million
NCI in N Ltd. at acquisition (40% x Rs. 2,437.5)	975.00
Add: NCI % of post –acquisition net assets (40% x (Rs. 2,818.75 million – Rs. 2,437.5 million))	152.50
Indirect holding adjustment (40% x Rs. 1,587.5 million)	(635.00)
NCI in M Ltd. at acquisition	632.50
NCI in post-acquisition net assets (44% x (Rs. 1,606.25 – Rs. 1,437.50))	74.25
	<u>1,199.25</u>

Alternative:

	Rs. million
NCI in N Ltd.'s net assets at reporting date (40% x Rs. 2,818.75)	1,127.50
NCI in M Ltd.'s net assets at reporting date (44% x Rs. 1,606.25)	706.75
NCI's share of investment in N (40% x Rs. 1,587.50)	(635.00)
	<u>1,199.25</u>

(W5) Retained earnings

	Rs. million
L Ltd.	1,550.00
N Ltd: 60% x (Rs. 1,162.5 million – Rs. 812.5 million (W2))	210.00
M Ltd: 56% x (Rs. 437.5 million – Rs. 300 million)(W2))	77.00
Gain on M Ltd.'s investment (W3)	(37.50)
Impairment of goodwill (W3)	(100)
Reversal of impairment loss (W6)	14.50
Restructuring provision (W7)	(17.50)
Pension plan (W8)	<u>(1.37)</u>
	<u>1,695.13</u>

Other components of equity

	Rs. million
L Ltd.	156.25
N Ltd.: 60% x (Rs. 100 million – Rs. 68.75 million) (W2)	18.75
M Ltd.: 56% x (Rs. 118.75 million – Rs. 87.50 million) (W2)	17.50
Revaluation gain (W6)	26.25
Pension plan re-measurement (W8)	<u>(6.13)</u>
	<u>212.62</u>

(W6) Office Building

	Rs. million
Cost of office building	112.5
Depreciation (112.5/30years)	<u>(3.75)</u>
Carrying amount	108.75
Revaluation loss – Profit or Loss	(15)
Fair value at 31 Asadh 2077	93.75
Depreciation (93.75/29years)	<u>(3.25)</u>
	90.50
Revaluation surplus - OCI	40.75
Fair value at 31 Asadh 2078	131.25

If no revaluation reserve exists for an item of PPE then a downward revaluation is recognized in the statement of profit or loss. Some of this reversal can be recognized in profit or loss, but this is capped at the amount needed to increase the asset to the value it would have been had no impairment occurred. If no impairment had occurred, the asset would have been held at Rs. 105 million (Rs. 112.5 million – (2 x Rs. 3.75)). Therefore, the gain recorded in profit or loss is Rs. 14.5 million (Rs. 105 million – Rs. 90.5 million). The remainder of the gain is recognized in other comprehensive income.

The entries will be:

Dr property, plant and equipment	Rs. 40.75 million
Cr profit or loss	Rs. 14.50 million
Cr other comprehensive income	Rs. 26.25 million

(W7) Provision for Restructuring

Only those costs that result directly from and are necessarily occasioned by a restructuring may be included in a restructuring provision. This includes costs such as employee redundancy costs or lease termination costs. Expenses that relate to ongoing activities, such as relocation and retraining, are excluded.

With regard to the service reduction, a provision should be recognized for the redundancy and lease termination costs of Rs. 17.5 million (Rs. 10 million + Rs. 7.5 million). The sites and details of the redundancy costs have been identified.

In contrast, L Ltd. should not recognize a provision for the finance and IT department's re-organization. The re-organization is not due to start for two years. Stakeholders outside are unlikely to have a valid expectation that management is committed to the re-organization as the time frame allows significant opportunities for management to change the details of the plan or even to decide not to proceed with it. In addition, the degree of identification of the staff to lose their jobs is not sufficiently detailed to support the recognizing of a redundancy provision.

(W8) pension plan

In order to calculate the re-measurement component, reconcile the opening and closing net pension deficit. The re-measurement component is accounted for in other comprehensive income.

The liability recognized in the financial statements will be Rs. 7.5 million (that is, Rs. 43.75 million- Rs. 36.25 million)

	Rs. million
Net obligation at 1 st Shrawan 2077 (Rs. 37.5 million – Rs. 35 million)	2.50
Net interest component (Rs. 2.5 million x 5%)	0.125
Contributions	(2.50)
Service cost component	1.25
Re-measurement loss (remaining figure)	(6.125)
Net obligation at 31 st Asadh 2078 (43.75 - 36.25)	7.50

The service cost component and net interest component will be charged to profit or loss (Rs. 1.375 million) and the re-measurement loss to Other Comprehensive Income (Rs. 6.125 million). There will be no adjustment for the contributions, which have already been taken into account.

2.

- a) Ashish started a new company Nepsoft Pvt. Ltd. with Star Ltd. wherein investment of 55% is done by Star Ltd. and rest by Ashish. Voting powers are to be given as per the proportionate share of capital contribution. The new company formed was the subsidiary of Star Ltd. with two directors, and Ashish eventually becomes one of the directors of company. A consultant was hired and he charged Rs. 30,000 for the incorporation of company and to do other necessary statutory registration which is to be charged as an expense in the books after incorporation. The company, Nepsoft Pvt. Ltd. was incorporated on 1st Shrawan 2077.

The financials of Star Ltd. are prepared as per NFRS.

The draft financials of Nepsoft Pvt. Ltd. are as follows:

Statement of Profit and Loss for the year ending 31st Asadh 2078

Particulars	Amount (Rs.)
Revenue from operations	1,000,000
Other Income	100,000
Total Revenue (a)	1,100,000
Expenses:	

Purchase of stock in trade	500,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	175,000
Depreciation	30,000
Other expenses	90,000
Total Expenses (b)	745,000
Profit before tax (c) = (a)-(b)	355,000
Current tax @ 30%	(106,500)
Deferred tax	(6,000)
Profit for the year	242,500

Balance Sheet as at 31st Asadh 2078

	Amount (Rs.)
Equity and Liabilities	
Shareholders' Funds	
(a) Share Capital	100,000
(b) Reserves & Surplus	227,500
Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	106,500
Total	521,000
Assets	
Non-Current Assets	
(a) Property, plant and equipment (net)	100,000
Additional information of Nepsoft Pvt Ltd : (b) Long-term Loans and Advances	40,000
(c) Other Non-Current Assets	50,000
Current Assets	
(a) Current Investment	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	115,000
(e) Other Current Assets	51,000
Total	521,000

- i) Deferred tax liability of Rs. 6,000 is created due to temporary difference in depreciation amount as per Income tax and Accounting profit.

- ii) There is only one property, plant and equipment in the company, whose closing balance as at 31st Asadh, 2078 is Rs. 100,000 as per books and Rs. 80,000 as per Income tax record.
- iii) Pre incorporation expenses are deductible on straight line basis over the period of five years as per Income tax. However, the same are immediately expensed off in the books.
- iv) The current tax after doing necessary adjustments of allowances / disallowances related to Income tax comes to Rs. 125,700.
- v) After the reporting period, the directors have recommended dividend of Rs. 15,000 for the year ending 31st Asadh, 2078 which has been deducted from reserves and surplus, and this has been grouped under 'Other Current Liabilities' alongwith other financial liabilities.
- vi) There are 'Government statutory dues' amounting to Rs. 15,000 which are grouped under 'Other Current Liabilities'.
- vii) Other current assets of Rs. 51,000 comprise interest receivable from trade receivables.
- viii) Current investment of Rs. 30,000 is in shares of a company, with the purpose of trading, has been carried at cost in the financial statements. The fair value of current investment is Rs. 50,000 as at 31st Asadh, 2078.
- ix) Actuarial gain on employee benefit measurements of Rs. 1,000 has been omitted in the financials for the year ending 31st Asadh, 2078.

The financial statements for F/Y 2077/78 have not yet been approved.

Required:

10

State with reason whether the financial statements of Nepsoft Pvt. Ltd. are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements (SOPL and SFP) of Nepsoft Pvt. Ltd. considering the above information and write a disclosure note on dividend.

- b) Following information was extracted from the books of a life insurance business:

Particulars	Amount (Rs.)
Employee Expenses	25,308
House Rent	5,362
Water and Electricity	969
Repair and Maintenance	667
Telephone	2,185
Printing and Stationeries	6,753
Transportation	1,041
Travelling	3,339
Agents' Expenses	54,617
Insurance Premium	530

Legal and Consultancy Fee	256
Advertising and Promotion	5,759
Sales Promotion	3,781
Entertainment	2,120
Actuary Valuation Expenses	400
Audit Fee	500
Bank Charges	254
Fees and Charges	803
Depreciation	4,731
Stamp Fee	1,653

Following additional information is available:

Types of Insurance	Direct Insurance Premium (Rs.)	Agent Commission (Rs.)	Medical Expenses (Rs.)
Endowment Insurance	990,253	115,452	4,072
Modified Endowment Insurance	156,217	44,439	1,095
Advance Payment Endowment Insurance	199,176	17,345	232
Jeevan Sarathi Insurance	1,856	457	6
General Term Life Insurance	576	42	-

Required:

10

Calculate amount of management expenses to be distributed to Profit and Loss Account and each category of Revenue Account.

Answer

- 2 a) If NFRS is applicable to any company, then NFRS shall automatically be made applicable to all the subsidiaries, holding companies, associated companies, and joint ventures of that company, irrespective of individual qualification of set of standards on such companies.

In the given case, it has been mentioned that the financials of Star Ltd. are prepared as per NFRS. Accordingly, the financials of its subsidiary Nepsoft Pvt. Ltd. should also have been prepared as per NFRS.

Hence, it is necessary to revise the financial statements of Nepsoft Pvt. Ltd. as per NFRS incorporating necessary adjustments.

The revised financial statements of Nepsoft Pvt. Ltd. as per NFRS are as follows:

Statement of Profit or Loss for the year ended 31st Asadh, 2078

Particulars	Amount (Rs.)
Revenue from operations	1,000,000
Other Income (1,00,000 + 20,000) (WN1)	120,000
Total Revenue	1,120,000
Expenses:	
Purchase of stock in trade	500,000
(Increase) / Decrease in stock in trade	(50,000)
Employee benefits expense	175,000
Depreciation	30,000
Other expenses	90,000
Total Expenses	745,000
Profit before tax	375,000
Current tax	(125,700)
Deferred tax (WN4)	(4,800)
Profit for the year (A)	244,500
Other Comprehensive Income:	
Remeasurements of net defined benefit plans	1,000
Tax liabilities on remeasurement (1000×30%)	(300)
Other Comprehensive Income for the period (B)	700
Total Comprehensive Income for the period (A+B)	245,200

Balance Sheet as at 31st Asadh, 2078

	(Rs.)
Assets	
Non-current assets:	
Property, plant and equipment	100,000
Financial assets:	
Other financial assets (Long-term loans and advances)	40,000

Other non-current assets	50,000
Current assets:	
Inventories	80,000
Financial assets:	
Investments (30,000 + 20,000) (Note -1)	50,000
Other financial assets (Interest receivable from trade receivables)	51,000
Trade receivables	55,000
Cash and cash equivalents	115,000
Total	541,000
Equity & Liabilities	
Equity:	
Share capital	100,000
Other equity (Retained Earnings)	245,200
Non-current liabilities	
Provision (25,000 – 1,000)	24,000
Deferred tax liabilities (4800 + 300)	5,100
Current liabilities:	
Financial liabilities	
Trade payables	11,000
Other financial liabilities (WN3)	15,000
Other current liabilities (Govt. statutory dues) (WN3)	15,000
Current tax liabilities	125,700
Total	5,41,000

Disclosure forming part of financial statements:

Proposed dividend on equity shares is subject to the approval of the shareholders of the company at the annual general meeting and not recognized as liability as at the Balance Sheet date. (WN3)

Working Notes:

1. Current investments are held for the purpose of trading. Hence, it is a financial asset classified as FVTPL. Any gain in its fair value will be recognized through profit or loss. Hence, NRs 20,000 (50,000 – 30,000) increase in fair value of financial asset will be

recognised in profit and loss. However, it will attract deferred tax liability on increased value.

2. Calculation of deferred tax on temporary differences as per NAS 12 for financial year 2077/78:

Item	Carrying amount (Rs.)	Tax base (Rs.)	Difference (Rs.)	DTA / DTL @ 30% (Rs.)
Property, Plant and Equipment	1,00,000	80,000	20,000	6,000-DTL
Pre-incorporation expenses	Nil	24,000	24,000	7,200-DTA
Current Investment	50,000	30,000	20,000	6,000-DTL
Net DTL				4,800-DTL

3. As per NAS 10, 'Events after the Reporting Period', If dividends are declared after the reporting period but before the financial statements are approved for issue, the dividends are not recognized as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with NAS 1, Presentation of Financial Statements.

4. Other current financial liabilities:

	(Rs.)
Balance of other current liabilities as per financial statements	45,000
Less: Dividend declared for FY 2077 - 2078 (WN3)	(15,000)
Reclassification of government statutory dues as 'Other Current Liabilities'	(15,000)
Closing balance	15,000

2 b) Calculation of Management Expenses:

Particulars	Amount (Rs.)
Employee Expenses	25,308
House Rent	5,362
Water and Electricity	969
Repair and Maintenance	667
Telephone	2,185
Printing and Stationeries	6,753
Transportation	1,041
Travelling	3,339
Agents' Expenses	54,617

Insurance Premium	530
Legal and Consultancy Fee	256
Advertising and Promotion	5,759
Sales Promotion	3,781
Entertainment	2,120
Actuary Valuation Expenses	400
Audit Fee	500
Bank Charges	254
Fees and Charges	803
Depreciation	4,731
Stamp Fee	1,653
Total Management Expenses (A)	121,028
Management Expenses transferred to:	
Profit and Loss = (A*10%)	12,103
Endowment Insurance Revenue Account = (A*90%*74.74%)	81,411
Modified Endowment Insurance Revenue Account = (A*90%*9.50%)	10,348
Advance Payment Endowment Insurance Revenue Account = (A*90%*15.59%)	16,980
Jeevan Sarathi Insurance Revenue Account = (A*90%*0.12%)	131
General Term Life Insurance Revenue Account = (A*90%*0.05%)	54
Total	121,028

Working Notes:

Computation of weight for each category of Revenue Account:

Types of Insurance	Direct Insurance Premium (Rs.)	Agent Commission (Rs.)	Medical Expenses (Rs.)	Net Income for Weight	Weight for Revenue Account
Endowment Insurance	990,253	115,452	4,072	870,729	74.74%
Modified Endowment	156,217	44,439	1,095	110,683	9.50%

Insurance					
Advance Payment Endowment Insurance	199,176	17,345	232	181,599	15.59%
Jeevan Sarathi Insurance	1,856	457	6	1,393	0.12%
General Term Life Insurance	576	42	-	534	0.05%
Total	1,348,078	177,735	5,405	1,164,938	100.00%

3.

a) Eel Ltd. prepares consolidated financial statements to 31st Asadh each year. During the year ended 31st Asadh 2078, the following events affected the tax position of the group:

- i) Lil Ltd., a wholly owned subsidiary of Eel Ltd., made a loss adjusted for tax purposes of Rs. 3 million. Lil Ltd. is unable to utilise this loss against previous tax liabilities and local tax legislation does not allow Lil Ltd. to transfer the tax loss to other group companies. Local legislation does allow Lil Ltd. to carry the loss forward and utilise it against its own future taxable profits. The directors of Eel Ltd. do not consider that Lil Ltd. will make taxable profits in the foreseeable future.
- ii) Just before 31st Asadh 2078, Eel Ltd. committed itself to closing a division after the year end, making a number of employees redundant. Therefore Eel Ltd recognised a provision for closure costs of Rs. 2 million in its statement of financial position as at 31st Asadh 2078. Local tax legislation allows tax deductions for closure costs only when the closure actually takes place. In the year ended 31st Asadh 2079, Eel Ltd expects to make taxable profits which are well in excess of Rs. 2 million. On 31st Asadh 2078, Eel Ltd. had taxable temporary differences from other sources which were greater than Rs. 2 million.
- iii) During the year ended 31st Asadh 2078, Eel Ltd. capitalised development costs which satisfied the criteria in paragraph 57 of NAS 38 – Intangible Assets. The total amount capitalised was Rs. 1.6 million. The development project began to generate economic benefits for Eel Ltd. from 1st Baishakh 2078. The directors of Eel Ltd estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st Asadh 2078.
- iv) On 1st Shrawan 2077, the total goodwill arising on consolidation in Eel Ltd.'s consolidated statement of financial position was Rs.4 million. On 31st Asadh 2078, the directors reviewed the goodwill for impairment and concluded that the goodwill was impaired by Rs. 600,000. There was no tax deduction available for any group company as a consequence of this impairment charge as at 31st Asadh 2078.
- v) On 1st Shrawan 2077, Eel Ltd. borrowed Rs.10 million. The cost to Eel Ltd. of arranging the borrowing was Rs. 200,000 and this cost qualified for a tax deduction on 1st Shrawan 2077. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st Asadh 2080 will be Rs.13,043,800. This equates to an effective annual interest rate of 10%. Under the tax jurisdiction in which Eel Ltd. operates, a further tax deduction of Rs. 3,043,800 will be claimable when the loan is repaid on 31st Asadh 2080.

Required:

10

Explain and show how each of these events would affect the deferred tax assets/liabilities

in the consolidated statement of financial position of the Eel Ltd. group at 31st Asadh 2078. Where relevant, you should assume the rate of corporate income tax to be 25%.

- b) R Ltd. owns Building A which is specifically used for the purpose of earning rentals. The company has not been using the building or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building A for the year ending 31st Asadh, 2078:

Building A was purchased 5 years ago at a cost of Rs. 100 million with estimated useful life of 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st Shrawan, 2077 at the cost of Rs. 20 million. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 2077/78, the company earned / incurred following direct operating expenditure relating to Building A and Building B:

Rental income from Building A	=	Rs. 7.5 million
Rental income from Building B	=	Rs. 2.5 million
Sales promotion expenses	=	Rs. 0.50 million
Fees & Taxes	=	Rs. 0.10 million
Ground rent	=	Rs. 0.25 million
Repairs & Maintenance	=	Rs. 0.15 million
Legal & Professional fees	=	Rs. 0.20 million
Commission and brokerage	=	Rs. 0.10 million

Required: (4+3+3=10)

- i) Mention the measurement and recognition modality, in short, for investment property as per relevant NAS and calculate the carrying value of investment properties of R Ltd. as on 31st Asadh 2078.
- ii) Calculate the amount to be recognized in Profit & Loss with respect to the investment properties.
- iii) Write in short, the disclosure note on investment properties of the entity.

Answer

3 a)

- (i) The tax loss creates a potential deferred tax asset for the Eel Ltd. group since its carrying value is nil and its tax base is Rs.3 million.

However, no deferred tax asset can be recognised because there is no prospect of being able to reduce tax liabilities in the foreseeable future as no taxable profits are anticipated.

- (ii) The provision creates a potential deferred tax asset for the Eel Ltd group since its carrying value is Rs.2 million and its tax base is nil.

This deferred tax asset can be recognised because Eel Ltd. is expected to generate taxable profits in excess of Rs. 2 million in the year to 31st Asadh 2079.

The amount of the deferred tax asset will be Rs. 500,000 (Rs. 2 million \times 25%).

This asset will be presented as a deduction from the deferred tax liabilities caused by the (larger) taxable temporary differences.

- (iii) The development costs have a carrying value of Rs.1.52 million (Rs. 1.6 million – (Rs.1.6 million \times 1/5 \times 3/12)).

The tax base of the development costs is nil, since the relevant tax deduction has already been claimed.

The deferred tax liability will be Rs.380, 000 (Rs. 1.52 million \times 25%). All deferred tax liabilities are shown as non-current.

- (iv) No deferred tax liability arises in respect of goodwill on consolidation when it is created. This is a specific exception referred to in NAS 12.

As a consequence of this, no adjustment is made for deferred tax purposes when goodwill is impaired. Therefore, there are no deferred tax implications for the consolidated statement of financial position.

- (v) The carrying value of the loan at 31st Asadh 2078 is Rs.10.78 million (Rs.10 million – Rs.200, 000 + (Rs. 9.8 million \times 10%)).

The tax base of the loan is Rs. 10 million (Rs. 10.78 million – (Rs. 980,000 – Rs. 200,000)).

This creates a deductible temporary difference of Rs. 780,000 and a potential deferred tax asset of Rs.195, 000 (Rs.780, 000 \times 25%).

Due to the availability of taxable profits next year (see part (ii) above), this asset can be recognised as a deduction from deferred tax liabilities.

- 3 b i) Investment property is held to earn rentals or for capital appreciation or both. NAS 40 shall be applied in the recognition, measurement and disclosure of investment property. An investment property shall be measured initially at its cost. After initial recognition, an entity shall measure all of its investment properties in accordance with the requirement of NAS 16 for cost model.

The carrying value of Investment property as per NAS 40 in the balance sheet would be:

Particulars	Period ended 31 st Asadh, 2078 (Rs. in million)
Gross Amount:	
Opening balance (A)	100.00
Additions during the year (B)	20.00
Closing balance (C) = (A) + (B)	120.00
Depreciation:	
Opening balance (D)	25
Depreciation during the year (E) (5 + 0.5)	5.5
Closing balance (F) = (D) + (E)	30.5
Carrying Value (C) - (F)	89.5

ii) Amount recognised in Profit and Loss with respect to Investment Properties

Particulars	Period ending 31 st Asadh, 2078 (Rs. in million)
Rental income from investment properties (7.5 + 2.5)	10.00
Less: Direct operating expenses generating rental income (0.5+0.1+0.25+0.15+0.2+0.1)	(1.30)
Profit from investment properties before depreciation and indirect expenses	8.70
Less: Depreciation	(5.50)
Profit from earnings from investment properties before indirect expenses	3.20

iii) Disclosure Note on Investment Properties acquired by the entity:

- Investment properties are measured in accordance with the cost model.
- The fair value of the investment properties has not been obtained.
- The amount recognized in profit or loss is given on (ii) above.
- There is no restriction on the realisability of investment property or the remittance of income and proceeds of disposal.
- There is no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.
- The depreciation has been changed on SLM based on useful life of 20 years for property A and 40 years for property B. The gross carrying amount, depreciation amount and net carrying amount are presented in (i) above.

4. Write short note/ answer on the following:

(5×3=15)

- Joint venture arrangement
- Evaluate the treatment of development expenditure set out in NAS 38 'Intangible Assets' against the characteristics of relevance and reliability.
- Describe four circumstances in which a parent entity may not be required to present consolidated financial statements under Nepal Financial Reporting Standards.
- Briefly explain how lessee must account for leases within the scope of NFRS 16 Leases.
- Explain 'Plain Vanilla Swap' with example.

Answer

- 4 a) A joint venture is an association of two or more businesses established for a special purpose. Some joint ventures are in the form of partnerships or other unincorporated forms of business. Others are in the form of corporations jointly owned by two or more other firms.

The accounting principles for joint ventures are flexible because of their many forms. The typical problem concerns whether a joint venture should be carried as an investment or consolidated. Some joint ventures are very significant in relation to the parent firm. There is typically a question as to whether the parent firm has control or

only significant influence. When the parent firm has control, it usually consolidates joint ventures by using a pro rata share. Other joint ventures are usually carried in an investment account by using the equity method. In either case, disclosure of significant information often appears in a note.

When a firm enters into a joint venture, it frequently makes commitments such as guaranteeing a bank loan for the joint venture or a long-term contract to purchase materials with the joint venture. This type of action can give the company significant potential liabilities or commitments that do not appear on the face of the balance sheet. This potential problem exists with all joint ventures, including those that have been consolidated. To be aware of these significant potential liabilities or commitments, read the note that relates to the joint venture. Then consider this information in relation to the additional liabilities or commitments to which the joint venture may commit the firm.

- 4 b) Under NAS 38 development expenditure should be recognized as an asset, but only where it meets a number of stringent conditions. These relate to the technical feasibility of the project, how the probable future economic benefits will be generated and the availability of resources to complete the development. It must also be possible to measure the development expenditure reliably.

The most reliable information would be provided if the costs are recognized in the income statement as they are incurred (indeed this is the approach to be taken to research expenditure and to development expenditure where the recognition criteria are not met).

However, this does not provide relevant information where benefits from the expenditure will flow into the entity over several accounting periods. However, the reliability of this more relevant information can be seriously compromised where there are uncertainties surrounding the future outcome of the project. Hence, NAS 38 adopts the relevance approach but only where the information backing up that approach is reliable, i.e. there is sufficient certainty surrounding the viability/profitability of the project.

- 4 c) NFRS 10 Consolidated financial Statements outlines the following exemptions when the parent entity need not present consolidated financial statements:
- (i) The parent itself is a wholly owned subsidiary or a partially owned subsidiary and its owners have been informed about it and do not object to the parent not preparing the consolidated financial statements.
 - (ii) The parent's debt or equity instruments are not traded in a public market.
 - (iii) The financial statements of the parent are not filed with any regulatory organisation for the purpose of issuing debt or equity instruments on any stock exchange.
 - (iv) The ultimate or immediate parent of the entity produces publicly available financial statements that comply with NFRSs.
- 4 d) NFRS 16 requires that all leases with its scope must be capitalised by lessee by recognising lease liabilities and Right Of Use Assets (ROUA). However, a lessee may not capitalise a lease but merely account for lease rentals if any of the two exemptions has been used:
- The lease is of a small value asset
 - Short term Lease

Lease liabilities must initially be measured at the present value of the lessee's Minimum

Lease Payments (MLPs) payable in future discounted at the interest rate implicit in the lease. The ROUA is initially measured at the aggregate of:

- Cash incurred at inception of the lease
- Initial carrying amount of lease liability
- Provision for decommissioning the lease.

Subsequently, lease liabilities must be measured at amortized cost using the interest rate implicit in the lease, charging the finance costs in the SPL. ROUA must normally be amortized on a straight line basis over the shorter of the asset under lease's useful economic life and the lease term.

- 4 e) A plain vanilla swap is one of the simplest financial instruments contracted in the over-the-counter market between two private parties, both of which are usually firms or financial institutions. There are several types of plain vanilla swaps, including an interest rate swap, commodity swap, and a foreign currency swap. The term plain vanilla swap is most commonly used to describe an interest rate swap in which a floating interest rate is exchanged for a fixed rate or vice versa.

A plain vanilla interest rate swap is often done to hedge a floating rate exposure, although it can also be done to take advantage of a declining rate environment by moving from a fixed to a floating rate. Both legs of the swap are denominated in the same currency, and interest payments are netted. The notional principal does not change during the life of the swap, and there are no embedded options.

In a plain vanilla interest rate swap, Company A and Company B choose a maturity, principal amount, currency, fixed interest rate, floating interest rate index, and rate reset and payment dates. On the specified payment dates for the life of the swap, Company A pays Company B an amount of interest calculated by applying the fixed rate to the principal amount, and Company B pays Company A the amount derived from applying the floating interest rate to the principal amount. Only the netted difference between the interest payments changes hands.

5.

- a) Explain the objectives of public financial management. Discuss NPSAS in context of government accounting. (4+4=8)
- b) The following, information is supplied to you by Hanuman Co. Ltd.:

	Amount (Rs.)
Equity shares (Face value Rs. 10)	580,000
12% preference shares (Face value Rs. 10)	150,000
10% Debentures (Face value Rs. 10)	500,000
Term Debt (taken at 15%)	200,000
Financial Leverage	1.2
Securities Premium	50,000
General Reserve	20,000
Statutory Reserve	60,000
Income Tax Rate	30%

The industry to which Hanuman Co. Ltd. belongs has a practice of paying at least 15% dividend to its shareholders. The ordinary shares are quoted at a premium of 400%, preference shares at Rs. 25 and debentures at a discount of 20%.

Required:

Calculate Economic Value Added (EVA) and Market Value added (MVA) of the company and explain the reason for the difference, if any between the two.

Answer

- 5 a) It is generally accepted that a public financial management (PFM) system should achieve three objectives, to which we here add a fourth, the promotion of accountability and transparency. In order to assess a public financial management (PFM) system, we first need to define its objectives, the final outcomes, by which performance can be measured. For the due process of operation of all the reform activities, to adopt and to internalize the best practices international standards as per our requirements and to mobilize the assistance and supports of the Development Partners in this field, Public Financial Management has following objectives:
- The maintenance of aggregate fiscal discipline is the first objective of a PFM system: it should ensure that aggregate levels of tax collection and public spending are consistent with targets for the fiscal deficit, and do not generate unsustainable levels of public borrowing.
 - Secondly, a PFM system should ensure that public resources are allocated to agreed strategic priorities – in other words, that allocative efficiency is achieved.
 - Thirdly, the PFM system should ensure that operational efficiency is achieved, in the sense of achieving maximum value for money in the delivery of services.
 - Finally, the PFM system should follow due process and should be seen to do so, by being transparent, with information publicly accessible, and by applying democratic checks and balances to ensure accountability.

Nepal Public Sector Accounting Standards (NPSAS) in context of government accounting. The Accounting Standards Board, Public Sector Committee (the committee) develops accounting standards for public sector entities referred to Nepal Public Sector Accounting Standards (NPSAS) in Nepal. Nepal Public Sector Accounting Standards (NPSAS) have been developed in line with International Public Sector Accounting Standards (IPSAS). Such Standards establishes guidelines and standardize the financial reporting of Public Sector Entities in Nepal, resulting into the improvement of both quality and Comparability of the financial reporting. The Accounting Standards Board, Public Sector Committee has developed and issued Nepal Public Sector Accounting Standard: Financial reporting under the cash basis of accounting which becomes effective for annual financial statements covering period beginning on or after 1 January 2009. Adoption of this standard by the Government of Nepal (GoN) will improve both the quality and comparability of financial information reported by public sector entities in Nepal The standard comprise two parts:

Part 1 is mandatory: It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. The requirements in this part of the standard must be complied with by entities which claim to be reporting in accordance with the Nepal Public Sector Accounting Standard Financial Reporting under the Cash Basis of Accounting.

Part 2 is non-mandatory: It defines additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative method for presenting certain information.

5 b) **Economic value added (EVA)**

	Amount (Rs.)
Profit after tax (WN1)	280,000
Add: interest (net of tax) (80,000 x 0.70)	56,000
Return to providers of fund	336,000
Less: cost of capital (WN2)	(171,450)
Economic value added (EVA)	164,550

Computation of Market value added (MVA)

	Amount (Rs.)	Amount (Rs.)
Equity share capital (market value) (58,000x10x500%)		2,900,000
Preference share capital (15,000x25)		375,000
Debentures (50,000 x 10x80%)		400,000
Long term loan		200,000
Current market value of firm		3,875,000
Less: Equity share capital	580,000	
Preference share capital	150,000	
Debentures	500,000	
Long term loan	200,000	
Securities premium	50,000	
General Reserve	20,000	
Statutory reserve	60,000	(1,560,000)
Market value added (MVA)		2,315,000

The MVA of Rs. 2,315,000 is the difference between the current market value of Hanuman Co. Ltd. and the capital contributed by the fund providers. While EVA measures current earning efficiency of the company, MVA takes into consideration the EVA from not only the assets in place but also from the future projects/activities of the company. The difference between MVA and EVA thus represents the value attributed to the future potential for the company and may change from time to time based on market sentiments. In short the MVA is the net present value of all future EVAs.

Working Notes:

1. Calculation of net profit after interest and tax

Interest on debentures (500,000 x 10%)	50,000
Interest on long term debt (200,000 x 15%)	30,000
Total interest	80,000
Financial leverage = 1.2 = PBIT / (PBIT – Interest)	
PBIT	480,000
Less: Interest	(80,000)

Profit after interest before tax	400,000
Less : 30% tax	(120,000)
Profit after interest and tax	280,000

2. Calculation of weighted average cost of capital (WACC)

	Amount	Amount	Weight	Cost %	WACC %
Equity shareholders fund					
Equity shares	580,000				
Security premium	50,000				
General Reserve	20,000	650,000	0.43	15	6.45
Preference share		150,000	0.10	12	1.20
Debentures		500,000	0.33	7*	2.31
Long term debt		200,000	0.14	10.5*	1.47
		1500,000			11.43

*Rate of interest has been calculated net of tax.

Cost of capital = capital employed X WACC%

$$= 1500,000 \times 11.43\%$$

$$= 171,450$$

6.

- a) Vajra Ltd. and Zoro Ltd. both are in the business of manufacturing and selling of Lubricant. The shareholders of both companies agree to join forces to benefit from lower delivery and distribution costs. The business combination is carried out by setting up a new entity called Meera Ltd. that issues 100 shares to Vajra Ltd. shareholders and 50 shares to Zoro Limited's shareholders in exchange for the transfer of the shares in those entities. The number of shares reflects the relative fair values of the entities before the combination. Also respective company's shareholders get the voting rights in Meera Ltd. based on their respective shareholding.

Required:

Provide the provision and determine the acquirer by applying the principles of NFRS 3 'Business Combinations'.

5

- b) The accountant of Goreto Ltd. is preparing financial statements for the year ended 31st Asadh 2078. Before these can be completed the following issues need to be resolved:
- Goreto Ltd.'s head office building was revalued on 1st Magh 2077, giving rise to a surplus of Rs. 100,000. The building had an original cost of Rs. 1 million on 1st Shrawan 2070 and a 50-year life at that date. The useful life of the building remains unchanged.
 - During the year one of Goreto Ltd.'s machines broke down and could not be fixed. The carrying amount of the machine at that date was Rs. 30,000.

Because of the loss of production caused by the damaged machine, the company lost customers and it was decided that the whole factory unit was impaired by Rs.120,000. The accountant needs to decide how to allocate this impairment loss.

The carrying amounts of the assets of the factory unit at the date of the impairment review, including the damaged machine, were:

Particulars	Amount (Rs.)
Goodwill	20,000
Factory building	440,000
Plant and machinery	160,000
Net current assets	100,000
Total	720,000

Required:

(2+3=5)

i) What amount should be charged as depreciation on the building in (i) above for the year ended 31st Asadh 2078?

ii) Allocate the impairment loss and show the carrying amount of Non-current assets of the factory unit.

Answer

6 a) As per NFRS 3, in a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree.

Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including:

The relative voting rights in the combined entity after the business combination - The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity.

Based on above mentioned para, acquirer shall be either of the combining entities (i.e. Vajra Ltd. or Zoro Ltd.), whose owners as a Group retain or receive the largest portion of the voting rights in the combined entity.

Hence, in the above scenario Vajra Ltd.'s shareholder gets 66.67% share ($100 / 150 \times 100$) and Zoro Ltd.'s shareholder gets 33.33% share in Meera Limited. Hence, Vajra Ltd. is acquirer as per the principles of NFRS 3.

6 b) i)

<u>Particulars</u>	<u>Rs.</u>	<u>Rs.</u>
Original cost 1/4/2070	1,000,000	
Depreciation to 31/03/77 ($1,000,000 \times 7/50$)	(140,000)	
	860,000	
Depreciation to 30/9/77 ($(1,000,000/50) \times 6/12$)	(10,000)	10,000
	850,000	
Revaluation surplus	100,000	

	950,000	
Depreciation to 31/3/78 (950,000 X 0.5/42.5)	<u>(11,176)</u>	<u>11,176</u>
Total depreciation year to 31/3/78		<u>21,176</u>

ii) Allocation as per NAS 36 para 104

	<u>Original amount(Rs.)</u>	<u>Impairment(Rs.)</u>	<u>Carrying Amount(Rs.)</u>
Goodwill	20,000	(20,000)	
Building	440,000	(54,000)	386,000
Plant and machinery	<u>160,000</u>	<u>(30,000+16,000)</u>	114,000
	<u>720,000</u>	<u>120,000</u>	

Note:

- i) Goodwill is reduced first.
- ii) Allocate Rs. 30,000 to plant & machinery next.
- iii) Allocate remaining amount on prorata to the carrying amount of remaining non-current assets as below:

Building

$$=70,000 \times \frac{440}{440+130}$$

Plant & Machinery

$$=70,000 \times \frac{130}{440+130}$$

Paper 2: Advanced Financial Management

1. Standard Inc., a Singapore based Pharmaceutical Company has received an offer from Nepal Pharma Ltd., a company engaged in manufacturing of drugs to cure Malaria, to set up a manufacturing unit in Birgunj, Nepal in a joint venture.

As per the Joint Venture agreement, Standard Inc. will receive 55% share of revenues plus a royalty @ Singapore Dollar 0.01 per bottle. The initial investment will be NPR 200 crores for machinery and factory. The scrap value of machinery and factory is estimated at the end of five (5) year to be NPR 5 crores. The machinery is depreciable @ 20% on the value net of salvage value using Straight Line Method. An initial working capital to the tune of NPR 50 crores shall be required and thereafter NPR 5 crores each year.

As per Government of Nepal (GON) directions, it is estimated that the price per tablet will be NPR 7.50 and production will be 24 crores tablets per year. The price per tablet, in addition to inflation of respective years, shall be increased by NPR 1 each year. The production cost shall be 40% of the revenues.

The applicable tax rate in Nepal is 30% and 35% in Singapore and there is Double Taxation Avoidance Agreement between Nepal and Singapore. According to the agreement tax credit shall be given in Singapore for the tax paid in Nepal. In both the countries, taxes shall be paid in the following year in which profit has arisen/ remittance received.

The Spot rate of Singapore Dollar is NPR 57. The inflation in Nepal is 6% (expected to decrease by 0.50% every year) and 5% in Singapore.

As per the policy of GON, only 50% of the share can be remitted in the year in which they are realised and remaining in the following year.

Though WACC of Standard Inc. is 13% but due to risky nature of the project it expects a return of 15%.

Determine whether Standard Inc. should invest in the project or not (from subsidiary point of view).

20

Answer:

Working Notes:

- (i) Estimated Exchange Rates (Using PPP Theory)

Year	0	1	2	3	4	5	6
Exchange rate	57	57.54	57.82	57.82	57.54	56.99	56.18

(ii) Share in sales

Year	1	2	3	4	5
Annual Units in crores	24	24	24	24	24
Price per Tablet (NPR)	7.50	8.50	9.50	10.50	11.50
Price fluctuating Inflation Rate	6.00%	5.50%	5.00%	4.50%	4.00%
Inflated Price (NPR)	7.95	8.97	9.98	10.97	11.96
Inflated Sales Revenue (NPR in Crore)	190.80	215.28	239.52	263.28	287.04
Sales share @55%	104.94	118.40	131.74	144.80	157.87

(iii) Royalty Payment

Year	1	2	3	4	5
Annual Units in crores	24	24	24	24	24
Royalty in Singapore Doller	0.01	0.01	0.01	0.01	0.01
Total Royalty (Singapore Doller in Crore)	0.24	0.24	0.24	0.24	0.24
Exchange Rate	57.54	57.82	57.82	57.54	56.99
Total Royalty (NPR in Crore)	13.81	13.88	13.88	13.81	13.68

(iv) Tax Liability

(NPR Crore)

Year	1	2	3	4	5
Sales Share	104.94	118.40	131.74	144.80	157.87
Total Royalty	<u>13.81</u>	<u>13.88</u>	<u>13.88</u>	<u>13.81</u>	<u>13.68</u>
Total Income	118.75	132.28	145.61	158.61	171.55
Less: Expenses					
Production Cost (Sales share x 40%)	41.98	47.36	52.69	57.92	63.15
Depreciation (195 x 20%)	39.00	39.00	39.00	39.00	39.00
PBT	11.33	13.78	16.18	18.51	20.82
Tax on Profit @30%	26.44	32.14	37.74	43.18	48.58
Net Profit					

(v) Free Cash Flow

(NPR in Crore)

Year	0	1	2	3	4	5	6
Sales Share	0.00	104.94	118.40	131.74	144.80	157.87	0.00
Total Royalty	0.00	13.81	13.88	13.88	13.81	13.68	0.00
Production Cost	0.00	-41.98	-47.36	-52.69	-57.92	-63.15	0.00
Initial Outlay	-200.00	0.00	0.00	0.00	0.00	0.00	0.00
Working Capital	-50.00	-5.00	-5.00	-5.00	-5.00	70.00	0.00
Scrap Value	0.00	0.00	0.00	0.00	0.00	5.00	0.00
Tax on Profit	-250.00	71.77	68.59	74.15	79.51	164.89	-20.82

(vi) Remittance of Cash Flows

(NPR Crore)

Year	0	1	2	3	4	5	6
Free Cash Flow	-250.00	71.77	68.59	74.15	79.51	164.89	-20.82
50% of Current Year Cash Flow	0.00	35.89	34.29	37.07	39.76	82.45	0.00
Previous year remaining cash flow	-250.00	35.88	70.17	71.37	76.84	122.20	61.62

(v) NPV of Project under Appraisal

Year	0	1	2	3	4	5	6	7
Total Remittance (NPR Crore)	-250	35.88	70.17	71.37	76.84	122.2	61.62	
Exchange Rate	57	57.54	57.82	57.82	57.54	56.99	56.18	-
Remittance (Singapore Dollar in Million)	-43.86	6.24	12.14	12.34	13.35	21.44	10.97	
Singapore Tax @35% (Singapore Dollar in Million)	0.00	0.00	2.18	4.25	4.32	4.67	7.50	3.84

Nepal Tax (Singapore Dollar in Million)	0.00	0.00	1.96	2.38	2.81	3.25	3.71	0.00
Net Tax (Singapore Dollar in Million)	0.00	0.00	0.22	1.86	1.51	1.43	3.80	3.84
Net Cash Flow (Singapore Dollar in Million)	-43.86	6.24	11.91	10.48	11.85	20.02	7.17	-3.84
PVF @ 15%	0	0.870	0.756	0.658	0.572	0.497	0.432	0.376
Present Value (in Singapore Dollar in Million)	-43.86	5.42	9.01	6.89	6.77	9.95	3.10	-1.44
NPV (in Singapore Dollar in Million)	-4.16							

Computation of Nepal Tax (Singapore Dollar in Million)

Particulars	0	1	2	3	4	5	6	7
Nepal Tax (NPR in Crores)	0	0	11.33	13.78	16.18	18.51	20.82	
Exchange Rate	57	57.54	57.82	57.82	57.54	56.99	56.18	
Nepal Tax (Singapore Dollar in Million)	0.00	0.00	1.96	2.38	2.81	3.25	3.71	

Decision: Since NPV of the project is negative, Standard inc. should not invest in the project.

2.

- a) M/s Nepal Agro Ltd. is contemplating calling Rs. 3 crores of 30 years, Rs. 1,000 bond issued 5 years ago with a coupon interest rate of 14 per cent. The bonds have a call price of Rs. 1,140 and had initially collected proceeds of Rs. 2.91 crores due to a discount of Rs.30 per bond. The initial floating cost was Rs. 3,60,000. The Company intends to sell Rs. 3 crores of 12 per cent coupon rate, 25 years bonds to raise funds for retiring the old bonds. It proposes to sell the new bonds at their par value of Rs. 1,000. The estimated floatation cost is Rs. 4,00,000.

The company is paying 40% tax and its after tax cost of debt is 8 per cent. As the new bonds must first be sold and their proceeds, then used to retire old bonds, the company expects a two months' period of overlapping interest during which interest must be paid on both the old and new bonds. Evaluate the feasibility of refunding bonds?

10

Answer:

NPV for bond refunding

Particulars	Amount (Rs.)
PV of annual cash flow savings (W.N. 2) (3,49,600 × PVIFA 8%,25) i.e. 10.675	37,31,980
Less: Initial investment (W.N. 1)	<u>29,20,000</u>

NPV	<u>8,11,980</u>
-----	-----------------

Recommendation: Refunding of bonds is recommended as NPV is positive.

Working Notes:

(1) Initial investment:

(a) Call premium

Before tax $(1,140 - 1,000) \times 30,000$ 42,00,000

Less tax @ 40% 16,80,000

After tax cost of call prem. 25,20,000

(b) Floatation cost 4,00,000

(c) Overlapping interest

Before tax $(0.14 \times 2/12 \times 3 \text{ crores})$ 7,00,000

Less: tax @ 40% 2,80,000

After tax cost of overlapping interest 4,20,000

(d) Tax saving on unamortised discount

on old bond $25/30 \times 9,00,000 \times 0.4$ (3,00,000)

(e) Tax savings from unamortised floatation

Cost of old bond $25/30 \times 3,60,000 \times 0.4$ (1,20,000)

29,20,000

(2) Annual cash flow savings:

(a) Old bond

(i) Interest cost $(0.14 \times 3 \text{ crores})$ 42,00,000

Less tax @ 40% 16,80,000

25,20,000

(ii) Tax savings from amortisation of

Discount $9,00,000/30 \times 0.4$ (12,000)

(iii) Tax savings from amortisation of

floatation cost $3,60,000/30 \times 0.4$ (4,800)

Annual after tax cost payment under old Bond (A) 25,03,200

(b) New bond

(i) Interest cost before tax $(0.12 \times 3 \text{ crores})$ 36,00,000

Less tax @ 40% 14,40,000

After tax interest 21,60,000

(ii) Tax savings from amortisation of floatation cost (6,400)

(4,00,000/25*0.4)

Annual after tax payment under new Bond (B) 21,53,600

Annual Cash Flow Saving (A) - (B) 3,49,600

- b) Himal Ltd. is manufacturer and exporter based in Nepal. The recent financial statements of the company are as follows:

Income statement for the year ended Ashadh 31

Description	Amount (Rs. in million)
Sales revenue	93.50
EBIT	18.00
Less: Interest on loan	1.80
Earnings before taxes	16.20
Less: Corporate taxes (35%)	5.67
Earnings after taxes	10.53

Balance sheet as at Ashadh 31

Liabilities	Amount (Rs. in million)	Assets	Amount (Rs. in million)
Equity share capital (1 lakh shares of Rs. 100 each)	10.00	Freehold land and buildings (net)	20.00
Reserves and surplus	32.50	Plant and machinery (net)	29.50
10% loan	18.00	Stock	10.00
Creditors and other liabilities	18.00	Debtors	15.00
		Cash and bank balance	4
Total	78.50	Total	78.50

Additional information:

- i. The finance manager of the company has estimated the future free cash flows of the company as follows:

Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Amount (Rs. in million)	22	23	24.5	26	30	32

Free cash flows in subsequent years, after year 6, are estimated to grow at 4%. The company's weighted average cost of capital is 12%.

ii.

The current resale value of the following assets has been assessed by the professional valuator as follows:

Freehold land and buildings	Rs. 60 million
Plant and machinery	20 million
Stock	11 million

The resale values of the remaining assets are as per their book values.

iii.

A similar sized company listed in Nepse with similar business has P/E ratio of 7 times.

You are required to compute the value of the company to equity shareholders as well as value of an equity share on the basis of free cash flows, book value of net assets, market value of net assets, price earnings ratio and comment on excessive valuation result, if any.

10

Answer

i. Valuation of company on free cash flow basis:

5 marks

Present value of company during explicit forecast period Rs. in million

Year	Free cash flows	PV factor at 12%	Total PV
1	22	0.893	19.65
2	23	0.797	18.33
3	24.5	0.712	17.44
4	26	0.636	16.54
5	30	0.567	17.01
6	32	0.507	16.22
Total Present Value			105.19

Terminal value of free cash flows at the end of 6th year = $\frac{32 \times 1.04}{0.12 - 0.04} = \frac{33.28}{0.08} = \text{Rs. } 416$

Present value of terminal value = $416 \times 0.507 = \text{Rs. } 210.91$

Now,

Total value of company i.e. total present value of free cash flows = $105.19 + 210.91 = \text{Rs. } 316.10$

Less: 10% Loan 18

Less: Creditors and other liabilities 18

Value of company to equity shareholders 280.10

Number of equity shares 0.10

Value of equity shares in Rs. $(280.10 / 0.10)$ 2,801

ii. Valuation of the company on book value of net assets basis:

Rs. in million

Book value of equity share capital 10

Reserve and surplus 32.50

Value of company to equity shareholders	42.50
Number of equity shares	0.10
Value of equity shares in Rs. (42.50/0.10)	425

iii. Valuation of the company on market value of net assets basis:

	Rs. in million
Freehold land and buildings	60
Plant and machinery	20
Stock	11
Debtors	15
Cash and bank balance	<u>4</u>
Total assets	110
Less: 10% Loan	18
Less: Creditors and other liabilities	<u>18</u>
Value of company to equity shareholders	74
Number of equity shares	0.10
Value of equity shares in Rs. (74/0.10)	740

iv. Valuation of the company on price earnings ratio basis:

	Rs. in million
Earnings after taxes (based on Income Statement)	10.53
Number of equity shares	0.10
Earnings per share in Rs.	105.30
PE ratio base (of similar listed company)	7
Market price of an equity share in Rs.	737.10
Value of company to equity shareholders (737.10×0.10)	73.71

Comment: There has been excessive valuation based on discounted free cash flows basis particularly because of higher valuation of terminal value at the end of 6th year because of the assumption of maintenance of steady growth rate of 4% p.a. on the earnings of 6th year forever which might be the matter of concern or negotiation.

3.

a) Syntex Ltd. has to make a US \$5 million payment in three months' time. The required amount in dollars is available with Syntex Ltd. The management of the company

decides to invest them for three months and following information is available in this context.

- The US \$ dollar deposit rate is 9% per annum
- The sterling pound deposit rate is 11% per annum.
- The spot exchange rate is \$ 1.82/pound
- The Three month forward rate is \$ 1.80/pound

Answer the following questions-

(3+3+2+2=10)

- (i) Where should the company invest for better returns?
- (ii) Assuming that the interest rate and the spot exchange rate remain as above, what forward rate would yield an equilibrium situation?
- (iii) Assuming that the US interest rate and the spot exchange rate remain as above, where will you invest if interest is 15% p.a. in UK?
- (iv) With the originally stated spot and forward rates and the same dollar deposit rate, what is the equilibrium sterling pound deposit rate?

Answer:

- (i) US deposit rate=9% per annum
Sterling pound deposit rate= 11% annum
Spot exchange rate= \$ 1.82/pound
Three month Forward Rate= \$ 1.80/pound

Option I: Invest in \$ deposit @ 9% per annum for 3 months

$$\text{Income} = 50,00,000 \times \frac{9}{100} \times \frac{3}{12} = \$ 1,12,500$$

Option II: Available dollars may be converted to pounds sterling at spot rate. Cover forward position and invest @ 11% p.a. for three months.

Spot exchange rate = \$ 1.82/£

$$\text{So, \$5 million} = £ \frac{50,00,000}{1.82} = £27,47,252.747$$

$$\text{Interest earning on £ 2747252.747 @ 11\% p.a.} = 27,47,252 \times \frac{11}{100} \times \frac{3 \text{ months}}{12} = £ 75,549.450$$

Amount £ 27,47,252.747

Add: Interest £ 75,549.450

£ 28,22,802.197

Pound converted to dollar at 1.80/ pound

$$\text{Forward rate} = 28,22,802.197 \times 1.80 = \$ 50,81,043.954$$

$$\text{Gain} = 50,81,043.954 - 50,00,000 = \$ 81,043.954$$

Hence, Gain-Option I = \$ 1,12,500

Gain Option II = \$ 81,043.95

Therefore, Syntex Ltd. Under option I in \$ at 9%.

- (ii) For an equilibrium situation, amount at the end of three months should be equal.
Therefore, amount invested in sterling covered by forward rate = \$ 50,00,000+\$1,12,500= \$ 51,12,500
Let forward rate be \$ x /£
∴ at equilibrium £ 28,22,802.197 equals 28,22,802.197x= \$ 51,12,500
∴ $x = \frac{51,12,500}{28,22,802.197} = 1.811$
∴ Forward Rate=\$ 1.811/£
- (iii) Interest earned in pounds given same spot and forward rates
= £ 27,47,252.747 x $\frac{15}{100}$ x $\frac{3}{12}$ = £ 1,03,021.978
∴ Total £ = 27,47,252.747 + 1,03,021.978 = 28,60,274.725
Total \$ = 28,60,274.725 x 1.80 = \$ 51,30,494.505
Gain = \$ 51,30,494.505 - \$ 50,00,000 = \$ 1,30,494.505
Earlier Gain = \$ 1,12,500
Therefore, at 15% Aromatic Ltd. Should invest in \$ sterling.
- (iv) For equilibrium sterling deposit rate, amount invested in sterling equals \$ 51,12,500 after three months.
Now \$ 51,12,500 converted to £ at forward rate = $\frac{\$ 51,12,500}{1.80} = \$ 28,40,277.777$
Let sterling rate be X% p.a.
∴ $27,47,252,747 \times \frac{X}{100} \times \frac{3}{12} + 27,47,252.747 = 28,40,277.777$
 $6868.131867X + 27,47,252.742 = 28,40,277.777$
 $6868.131867X = 93,025.035$
 $X = 13.54\%$ per annum.

- b) The following information is provided relating to the acquiring company Everest Ltd. and the target company Laxmi Ltd.

Particulars	Everest Ltd.	Laxmi Ltd.
No. of shares (Face value Rs. 100 each)	0.75 million	1 million
Market capitalization in Rs.	750 million	500 million
PE ratio (times)	25	20
Reserve and surplus	165 million	300 million
Promoter's holding (No. of shares)	0.5 million	0.6 million

Board of Directors of both the companies have agreed to give a fair deal to the shareholders and accordingly for swap ratio the weights are decided as 40%, 40% and 20% respectively for earnings, book value and market price of share of each company.

Required:

10

- Calculate the swap ratio and also calculate promoter's holding % after acquisition.
- What is the EPS of Everest Ltd. after acquisition of Laxmi Ltd.?
- What is the expected market price per share and market capitalization of Everest Ltd. after acquisition, assuming PE ratio of Everest Ltd. remains unchanged?
- Calculate free float market capitalization of the merged company.

Answer

Calculation of earnings per share, book value per share and market price per share

Particulars	Everest Ltd.	Laxmi Ltd.
Market capitalization in Rs.	750 million	500 million
No. of shares	0.75 million	1 million
Market price per share in Rs.	1,000	500
PE ratio	25	20
Earnings per share in Rs.	40	25
Total profit in Rs.	30 million	25 million
Share capital in Rs.	75 million	100 million
Reserve and surplus in Rs.	165 million	300 million
Total book value of share in Rs.	240 million	400 million
Book value per share in Rs.	320	400

Calculation of swap ratio and promoter's holding

Earnings per share base	1:0.625 i.e.	$0.625 \times 40\%$	0.25
Book value per share base	1:1.25 i.e.	$1.25 \times 40\%$	0.50
Market price per share base	1:0.50 i.e.	$0.50 \times 20\%$	<u>0.10</u>
Total			0.85

Therefore, swap ratio is for every one share of Laxmi Ltd., to issue 0.85 shares of Everest Ltd.

That is, total no. of shares to be issued = 1 million \times 0.85 = 0.85 million shares.

And total number of shares after acquisition = 0.75+0.85 = 1.60 million shares.

Now, Total no. of shares to be issued for promoter shares of Laxmi Ltd. = $0.60 \times 0.85 = 0.51$ million shares.

And Total no. of promoter shares in Everest Ltd. after acquisition = 0.50+0.51 = 1.01 million shares.

Therefore, promoter's holding % in Everest Ltd. after acquisition = $1.01/1.60 \times 100 = 63.125\%$

Calculation of EPS of Everest Ltd. after acquisition

Total profit = 30+25 = 55 million

Therefore, EPS = Total Profit/No. of shares = 55 million/ 1.60 million = Rs. 34.375

Calculation of market price per share and market capitalization of Everest Ltd.

Expected market price per share = EPS \times PE ratio = $34.375 \times 25 = \text{Rs. } 859.375$

Expected market capitalization = No. of shares \times Expected market price per share
 $1.60 \text{ million} \times \text{Rs. } 859.375 = \text{Rs. } 1,375 \text{ million}$

Calculation of free float market capitalization

Expected market capitalization = No. of shares held by non promoters × Expected market price per share
(1.60 — 1.01) million × Rs. 859.375 = Rs. 507.03 million

4. Write short note on the following:

(5×3=15)

a. Cryptocurrency

Answer:

A cryptocurrency is a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend. Many cryptocurrencies are decentralized networks based on blockchain technology—a distributed ledger enforced by a disparate network of computers. A defining feature of cryptocurrencies is that they are generally not issued by any central authority, rendering them theoretically immune to government interference or manipulation. Cryptocurrencies are digital or virtual currencies underpinned by cryptographic systems. They enable secure online payments without the use of third-party intermediaries. "Crypto" refers to the various encryption algorithms and cryptographic techniques that safeguard these entries, such as elliptical curve encryption, public-private key pairs, and hashing functions.

Cryptocurrencies can be mined or purchased from cryptocurrency exchanges. Not all ecommerce sites allow purchases using cryptocurrencies. In fact, cryptocurrencies, even popular ones like Bitcoin, are hardly used for retail transactions. However, the skyrocketing value of cryptocurrencies has made them popular as trading instruments. To a limited extent, they are also used for cross-border transfers. Some key features of Cryptocurrency are:

- A cryptocurrency is a form of digital asset based on a network that is distributed across a large number of computers. This decentralized structure allows them to exist outside the control of governments and central authorities.
- Experts believe that blockchain and related technology will disrupt many industries, including finance and law.
- The advantages of cryptocurrencies include cheaper and faster money transfers and decentralized systems that do not collapse at a single point of failure.
- The disadvantages of cryptocurrencies include their price volatility, high energy consumption for mining activities, and use in criminal activities.

b. Describe the main features of Value-at-Risk (VAR).

Answer:

Following are main features of VAR:

(i) Components of Calculations: VAR calculation is based on following three components:

(a) Time Period

(b) Confidence Level - Generally 95% and 99%

(c) Loss in percentage or in amount

(ii) Statistical Method: It is a type of statistical tool based on Standard Deviation.

(iii) Time Horizon: VAR can be applied for different time horizons say one day, one week, one month and so on.

(iv) Probability: Assuming the values are normally attributed, probability of maximum loss can be predicted.

(v) Risk Control: Risk can be controlled by setting limits for maximum loss.

(vi) Z Score: Z Score indicates how many Standard Deviations is away from Mean value of a population. When it is multiplied with Standard Deviation it provides VAR.

c. “Currency risk emerges in three different forms linked to three different exposures a firm could face due to direct or indirect business operations across national boundaries that involve foreign currencies”.

Explain the three (3) different forms of currency risks arising out of three different exposures.

Answer:

Currency Risk: is a potential gain or loss that could occur as a result of an exchange rate change.

This can be further defined as a risk that arises from the change in price of one currency against another. Whenever a firm or individual has assets/liabilities and/or business operations across national borders, they face currency risk if their positions are not hedged.

Three different forms of currency risks a firm could face are: transaction risk, translation risk and economic risk.

Transaction Risk: This is the risk of making losses due to exchange rate changes in the course of international transactions. It occurs when prices are agreed in foreign currency terms in advance and the payment or the settlement is made at a later date and adverse changes in the exchange rate takes place between the two dates.

Translation Risk: This is the risk of exchange losses that could take place when the accounting figures of foreign operations (may be branches) are translated into the domestic currency in the preparation of financial reports (restating profit/loss and assets/liabilities of foreign branches at the exchange rate on the reporting date of financial reports).

Economic Risk: Change in the exchange rate will have an impact on most firms' competitiveness in numerous ways, to the extent their cash flows and their input/output are exposed to foreign currency fluctuations e.g. agro businesses will be subject to such economic risk due to their input (fertilizer and agro chemical) prices increasing as a result of exchange rate depreciations. On the other hand, if the rupee appreciates against foreign currencies, the tourism industry will suffer an economic risk due to decreased tourist arrivals.

d. Clientele Effect

Answer:

Concentration of investors in companies with dividend policies that are matched to their preference is called the "Clientele Effect". Investors have diverse preferences, and they naturally migrate to companies which have a dividend policy that matches their preferences. For instance, some clientele would prefer a company that doesn't pay dividends at all, but instead invests their retained earnings toward growing the business. Some would instead prefer the regular income from dividends over capital gains. Of those who prefer dividends over capital gains, there are further subsets of clientele; for example, investors might prefer a stock that pays a high dividend, while another subset might look for a balance between dividend payout and reinvestment in the company. Investors may choose to sell their stock if a company changes its dividend policy and deviates considerably from its preferences. On the other hand, the company may attract a new clientele group if its new dividend policy appeals to the group's dividend preferences. These changes in demographics related to a stock's ownership due to a change of dividend policy are examples of the "clientele effect". The existence of clientele effect implies that companies get investors they deserve and accordingly it will be difficult for a company to change an established dividend policy.

e. Continuous compounding

Answer:

Continuous compounding is the scheme of compounding where every amount earned is reinvested immediately. The time period for compounding at every stage is smaller than hours and minutes. It is used to ascertain the price and evaluate the prices of various derivative instruments. This is because, in the spot market, the price of these instruments changes every second due to huge volume of transactions. Therefore, continuous compounding is the closest method to value and evaluate derivative instruments. Continuous compounding is denoted by e^{rt} , where "r" is the rate of interest per annum and "t" is the time period measured in years. The value of "e" (epsilon) is approximately 2.7183. This is used to ascertain the future values. This is also called as Future Value Interest Factor under continuous compounding. The inverse of continuous compounding is continuous discounting and is denoted by e^{-rt} . It is used to ascertain the present value. It is called as Present Value Interest Factor under continuous compounding.

5.

- a) A share of the face value of Rs. 100 has current market price of Rs. 480. Annual expected dividend is 30%. During the fifth year, the shareholder is expecting a bonus in the ratio of 1:5. Dividend rate is expected to be maintained on the expanded capital base. The shareholder

intends to retain the share till the end of the eighth year. At that time, the value of share is expected to be Rs. 1,000. Incidental expenses at the time of purchase and sales are estimated at 5 % on the market price. There is no tax on dividend income and capital gain. The shareholder expects a minimum return of 15% per annum. Should he buy the share? What is the maximum price he can pay for the share? Show complete working. **8**

Answer

Here, we know

Value of share is discounted value of all dividend and last year price

Dividend each year for first four year = face value * div rate

$$= 100 * 30\%$$

$$= \text{Rs } 30$$

No. of shares at the fifth year

1 bonus share for each 5 share

0.2 bonus share for 1 share

Total share with bonus share = 1 + 0.20

$$= 1.20 \text{ share}$$

Dividend after 5th year

$$= \text{face value of } 1.20 \text{ share} * 30\%$$

$$= 100 * 1.20 * 30\%$$

$$= \text{Rs } 36$$

Calculation of Net 8 year end price

Expected value of share of 1 share = Rs 1000

Expected value of 1.2 share = Rs 1200

Less sales brokerage @ 5% = 60

Net sales price = 1140

Times	Amount	Present Value discounting factor@15%	Present Value
1-4	30	2.855	85.65
5-8	36	1.632	58.75
8	1140	0.327	372.78
Total Present Value			= 517.18

Since the present value price of share is Rs. 517.18 as compared to Rs 504, it is suggested to buy the securities. The maximum price he can pay for the security is Rs. 517.18(including incidental expenses).

b)

XYZ Ltd. headquartered in US is having a liability to pay AUD \$ 1,570,000 and AUD \$ 925,000 on 10th July and 10th September respectively. The company is having policy to hedge the risk involved in all foreign currency transactions. There are two alternatives available to hedge i.e. forward or option contracts. Currently, it is 10th June and following details are available for the alternatives.

The bankers have provided following quotations on US \$ per AUD \$ to have forward contract with.

Spot rate: 0.8684 - 0.8688

1 month forward: 0.8601

3 months forward: 0.8656

Price for US \$ /AUD \$ option on US stock exchange for contract size of AUD \$ 100,000 is available on following rates (US cents per AUD \$):

Strike Price (US \$ / AUD)	Calls		Puts	
	July	Sept.	July	Sept.
0.86	1.50	2.55	0.90	1.80
0.87	1.05	1.95	1.25	2.10
0.88	0.65	1.65	1.90	2.30

Financial consultant advise that if options are to be used, one month option should be brought at strike price of 87 cents, three month option at strike price of 88 cents and company should bear the risk for reminder uncovered by the options. For this company will use forward rates as the best estimate of spot rate. Transaction costs are to be ignored.

Suggest which of the above two methods would be better for the company to hedge foreign exchange risk on the two liabilities.

7

Answer

Calculation of cost to Company under forward hedge

For July 10th - $1,570,000 \times 0.8601 = \text{US } \$ 1,350,357$

For Sept. 10th - $925,000 \times 0.8656 = \text{US } \$ 800,680$

Number of option contract to be purchased

For July 10th - $1,570,000 / 100,000 = 15.70$ i.e 15

For Sept. 10th - $925,000 / 100,000 = 9.25$ i.e. 9

Calculation of cost to Company under options hedge

Particulars	July		September	
	AUD \$	US \$	AUD \$	US \$
Covered by contracts	1,500,000	1,305,000	900,000	792,000
Balance to be brought at spot	70,000	60,207	25,000	21,640
Cost of call option contracts				
15 contracts of size 100,000 @ 1.05 cents		15,750		
9 contracts of size 100,000 @ 1.65 cents				14,850
Total cost under call option		1,380,957		828,490

It is suggested to hedge the foreign currency liabilities of the company by entering into forward exchange contract since the total cost to company is less under it for both the liabilities.

6.

a) ABC Bank is analyzing the receivables of Nepal Ltd. in order to identify acceptable collateral to a short term loan. The company's credit policy is 2/10 net 30.

The bank lends 80% on accounts where customers are not currently overdue and where the average payment period does not exceed 10 days past the net period.

Schedule of Nepal Ltd.'s receivables has been submitted to the bank as follows:

Account	Amount (Rs.)	Days outstanding	Average payment period
102	24,000	15	20
304	9,000	45	60
705	11,500	22	24
246	3,300	9	10
578	18,000	50	45
456	29,000	16	10
862	14,000	27	48
	108,800		

How much will the bank lend on pledge of receivables, if the bank uses a 10% allowance for cash discount and returns?

5

Answer

Determination of eligible receivables outstanding

Account	Amount (Rs.)	Days outstanding	Average payment period	Is current OS within due date?	Is average payment period within limits?	Is qualified as collateral?	Eligible Amount (Rs.)
102	24,000	15	20	Yes	Yes	Yes	24,000
304	9,000	45	60	No	No	No	-
705	11,500	22	24	Yes	Yes	Yes	11,500
246	3,300	9	10	Yes	Yes	Yes	3,300
578	18,000	50	45	No	No	No	-
456	29,000	16	10	Yes	Yes	Yes	29,000
862	14,000	27	48	Yes	No	No	
	108,800						67,800

Calculation of amount which can be lent

Eligible amount of receivable as collateral	67,800
Less: 10% allowance for cash discount and returns (10% of 66,800)	<u>6,780</u>
Amount considered for lending by the bank	61,020
Amount to be lent by the bank on pledge of receivables (80% of 60,120)	48,816

b) Himalayan Fund Ltd. has current earning of Rs. 30 per share with 500,000 shares outstanding. The company plans to issue 100,000, 10% convertible preference shares of Rs. 100 each at par. The preference shares are convertible into 0.5 equity shares for each preference share held. The equity share has a current market price of Rs. 150 per share.

You are required to:

5

- Determine the preference share's conversion value,
- Calculate the conversion premium,
- Assuming the additional post tax return at the rate of 15% from investment of proceeds, calculate effect of the issue on the basic earning per share (a) before conversion, (b) after conversion.?

Answer

Preference share's conversion value = $0.5 \times 150 = \text{Rs. } 75$

Conversion premium on preference share = $(100/75 - 1) \times 100 = 33.33\%$

Calculation of effect on EPS before conversion of preference shares

Total no. of shares outstanding	500,000
Existing EPS	30
Existing total earning ($500,000 \times 30$)	15,000,000
Add: Earning from proceeds of preference shares ($100,000 \times 100 \times 15\%$)	<u>1,500,000</u>
Total earning before preference dividend	16,500,000
Less: Preference dividend ($100,000 \times 100 \times 10\%$)	<u>1,000,000</u>
Earning available to equity shareholders	15,500,000
So, EPS before conversion of preference shares ($15,500,000/500,000$)	31

Therefore, EPS increases to Rs. 31 per share from existing Rs. 30 per share.

Calculation of effect on EPS after conversion of preference shares

Existing no. of shares outstanding	500,000
Add: additional no. of shares from conversion ($100,000 \times 0.5$)	<u>50,000</u>
So, total no. of shares that will be outstanding	550,000
Total earning before preference dividend as calculated above	16,500,000
Less: Preference dividend	<u>-</u>
Earning available to equity shareholders	16,500,000
So, EPS after conversion of preference shares ($16,500,000/550,000$)	30

Therefore, EPS declines to Rs. 30 per share from revised Rs. 31 per share. That is, EPS goes back to one which was existing before issuance of preference shares i.e. Rs. 30 per share.

Paper 3: Advanced Auditing

1. Comment and give your views with reasons on each of the following cases, giving consideration to respective Standards, Laws and Code of Ethics:

- a) You work in the Saurav & Co., Chartered Accountants. The Goodman Group (the Group) is an audit client of your firm and the audit for the financial year ended 31 Ashadh 2078 is in the completion stage. The Group installs and maintains security systems for businesses and residential customers.

Materiality for the audit of the Group financial statements has been determined to be Rs. 400,000. You are reviewing the audit working papers, and have gathered the following information:

Fraud occurred

The Group finance director has informed the audit team that during the year, a fraud was carried out by a manager, Mr. Basu Bandhu, in one of the Group's procurement departments. The manager had raised fictitious supplier invoices and paid the invoiced amounts into his personal bank account. When questioned by the Group's finance director, Mr. Basu Bandhu confessed that he had stolen Rs. 40,000 from the Group. The finance director asked the audit team not to perform any procedures in relation to the fraud, as the amount is immaterial. He also stated that the financial statements would not be adjusted in relation to the fraud.

The only audit evidence on file is a written representation from management acknowledging the existence of the fraud, and a list of the fictitious invoices which had been raised by the manager, provided by the finance director. The audit working papers conclude that the fraud is immaterial and no further work is needed.

Development costs

In Falgun 2077, the Group commenced development of a new security system, and incurred expenditure of Rs. 600,000 up to the financial year end, which has been capitalised as an intangible non-current asset. The only audit evidence obtained in relation to this balance is as follows:

- Agreement of a sample of the costs included in the Rs. 600,000 capitalized to supporting documentation such as supplier invoices.
- Cash flow projection for the project, which indicates that a positive cash flow will be generated by 2080. The projection has been arithmetically checked.
- A written representation from management stating that 'management considers that the development of this new product will be successful'.

You are aware that when the Group finance director was asked about the cash flow projection which he had prepared, he was reluctant to answer questions, simply saying that 'the assumptions underlying the projection have been agreed to assumptions contained in the Group's business plan'. He provided a spreadsheet showing the projection, but the underlying information could not be accessed as the file was password protected and the Group finance director would not provide the password to the audit team.

Required:

- i) Discuss the implications of the fraud for the completion of the audit, and the actions to be taken by the auditor. **5 marks**
 - ii) Comment on the sufficiency and appropriateness of the audit evidence obtained in respect of development costs and recommend the actions to be taken by the auditor, including the further evidence to be obtained. **5 marks**
- b)
- i) You are auditing a small bank branch with staff strength of the manager, cashier and three other staff Ram, Sita and Hari. Among allocation of work for other areas, Hari who is a peon also opens all the mail and forwards it to the concerned person. He does not have a signature book so as to check the signatures on important communications. Sita has possession of all bank forms (e.g., Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). She maintains a record meticulously which you have test checked also. However, no one among staff regularly checks that. You are informed that being a small branch with shortage of manpower, it is not possible to always check the work and records. **5 marks**
 - ii) Newcomer & Associates, Chartered Accountants is planning is to submit the proposal for Statutory Audit, Tax Audit and Long Form Audit Report of the Sun & Star Saving & Credit Cooperative Limited for the FY 2078/2079. The loan and deposit of the cooperative at Ashad end 2078 is Rs. 80 million and Rs. 98.10 million respectively as per the audited financial statements. The estimated loan and deposit as at Ashad end 2079 is Rs. 97.5 million and Rs.120 million respectively. Assist Mr. Newcomer a recently qualified Chartered Account regarding the fees to be quoted for the above assignment in line with Directive Regarding Audit Firm Quality Guideline and Minimum Audit Fee, 2078. **5 marks**

Answer:

1 a

i) Fraud

If the full extent of the fraud is Rs. 40,000, then the audit team is correct to determine that the fraud is immaterial to the financial statements. However, without performing further procedures it is not possible to reach that conclusion. There is no auditor-generated evidence to support the assertion that Rs. 40,000 is the total amount of stolen funds. Relying solely on a conversation between the Group finance director and the manager who carried out the fraud and a list of invoices provided by the Group finance director is not acceptable as this evidence is not sufficiently reliable.

Indeed, the Group finance director could be involved with the fraud and is attempting to deceive the auditor and minimize the suspected scale of the fraud in order to deter further procedures being carried out, or investigation or actions being taken. The auditor should approach the comments made by the Group finance director with an attitude of professional skepticism, especially given that he has asked the audit team not to investigate further, which raises suspicion that he may be covering up the fact that the fraud was on a larger scale than has been made known to the auditor.

There are two courses of action for the auditor. First, further independent investigations should be carried out in order for the auditor to obtain sufficient and appropriate evidence relating to the amount of the fraud. This is particularly important given that the Group finance director seems unwilling to make any adjustment to the financial statements. If the fraud is actually more financially significant, the financial statements could be materially misstated, but without further audit evidence, the auditor cannot determine whether this is the case.

Second, the auditor should consider whether reporting is necessary. NSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* requires that when fraud has taken place, auditors shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. Given that the Group finance director alerted the auditor to the fraud, it seems likely that management and those charged with governance are already aware of the fraud. However, the auditor should consider whether a formal, written communication is needed.

In addition to reporting to management and those charged with governance, NSA 240 requires that the auditor shall determine whether there is a responsibility to report the occurrence or suspicion to a party outside the entity. The auditor's duty to maintain the confidentiality of client information makes such reporting potentially difficult, and the auditor may wish to take legal advice before reporting externally.

ii) Development costs

Given that the development costs are material to the Group financial statements, more audit work should have been carried out to determine whether it is acceptable that all, or some, of the Rs. 600,000 should have been capitalised. There is a risk that research costs, which must be expensed, have not been distinguished from development costs, which can only be capitalised when certain criteria have been met. Currently, there is not sufficient, appropriate audit evidence to conclude that the accounting treatment is appropriate, and intangible assets could be materially misstated.

Agreement of amounts to invoice provides evidence of the value of expenditure, but does not provide sufficient, appropriate evidence as to the nature of the expenditure, i.e., the procedure is not necessarily an evaluation of whether it is capital or revenue expenditure.

Performing an arithmetic check on a spreadsheet does provide some evidence over the accuracy of the calculations but does not provide sufficient, appropriate evidence on the validity of the projections, and in particular, there is no evidence that the assumptions are sound. Given that the Group finance director has not allowed the audit team access to information supporting the spreadsheet and has refused to answer questions, he may have something to hide, and the audit of the projection should be approached with a high degree of professional skepticism. The assumptions may not be sound and may contradict other audit evidence.

The attitude and actions of the Group finance director, which indicate a lack of integrity, should be discussed with the audit committee, as the committee should be in a position to discuss the situation with him, with the objective of making all necessary information available to the audit team.

Finally, there appears to be over-reliance on a written representation from management. NSA 580 *Written Representations* states that written representations should be used to support other audit evidence and are not sufficient evidence on their own. In this situation, it appears that the representation is the only evidence which has been sought in regard to the likely success of the new product development which is inappropriate.

Further evidence should be obtained to distinguish between research costs and development costs, and to support whether the development costs meet the recognition criteria in NAS 38 *Intangible Assets*, and to confirm whether all of the Rs. 600,000 should be capitalised. Further evidence should be obtained, including:

- A discussion with the project manager to obtain their view on the likely launch date for the new product, anticipated level of demand, any problems foreseen with completion of the project.
- A further review of a sample of the costs included in the Rs. 600,000, including evaluation of whether the costs are capital or revenue in nature.
- For the sample of costs, review purchase invoices and ensure they are in the name of the company to confirm the rights and obligations assertion of the capitalised costs.
- Results of any market research to support the assertion that the new product will generate future economic benefit.
- A discussion with management to identify how they have incurred development costs without carrying out any research first.
- Assuming that the Group finance director makes the supporting documentation, including assumptions, available to the audit team, the assumptions should be reviewed for reasonableness, with the auditor considering whether they are in line with business understanding and with other audit evidence obtained.

Answer

1 b

- i) Banks are required to implement and maintain a system of internal controls for mitigating risks, maintain good governance and to meet the regulatory requirements. Given below are examples of internal controls that are violated in the given situation:

In the instant case, Hari who is a peon opens all the mail and forwards it to the concerned person. Further, he does not have a signature book to check the signatures on important communications is not in accordance with implementation and maintenance of general internal control. As the mail should be opened by a responsible officer. Signatures on all the letters and advices received from other branches of the bank or its correspondence should be checked by an officer with the signature book.

All bank forms (e.g. Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.) should be kept in the possession of an officer, and another responsible officer should verify the issuance and stock of such stationery. In the given case, Sita has possession of all bank forms (e.g. cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). She maintains a record meticulously which were also verified on test check basis.

Further, contention of bank that being a small branch with shortage of manpower they are not able to check the work and records on regular basis, is not tenable as such lapses in internal control pose risk of fraud.

The auditor should report the same in his report accordingly.

- ii) Directive Regarding Audit Firm Quality Guideline and Minimum Audit Fee, 2078 is approved 265th Council Meeting and is applicable since Shrawan 1, 2078 and the same is recommendatory.

The fee for the assignment is to be calculated on the basis of use of the manpower multiplied by the daily rate mentioned in the below table:

	Category	Years of Experience	Daily Rates Rs.
A	Chartered Accountants (COP holders)		
1	Partner/Proprietor/QC Reviewer	>15 years	At least 30,000
2	Partner/Proprietor/QC Reviewer	11-15 years	20,000-29,000
3	Partner/Proprietor/QC Reviewer	5-10 years	15,000-19,000
4	Partner/Proprietor/QC Reviewer/Managers	<5 years	10,000-14,000
B	Registered Auditor (COP holders)		
5	B Class		15,000
6	C Class		10,000
7	D Class		5,000
C	Other Staffs		
8	Semi Qualified with minimum of 3 years of experience		3,000
9	Trainee/Support Staff		2,000

The fee arrived so should not be less than the minimum audit fee prescribed below

In case of the cooperatives the directive has recommended the below mentioned minimum audit fee.

Loan or deposits	Minimum audit fees (Rs)
More than 5 billion	500,000
More than 1 billion	200,000
More than 600 million	100,000
More than 150 million	75,000
More than 50 million	50,000
More than 20 million	25,000

For the purpose of determining the minimum audit fee the audited financial statement of the previous year needs to be considered. The loan and deposit of the cooperative at Ashad end 2078 is Rs. 80 million and Rs. 98.10 million respectively as per the audited financial statements. Hence the minimum audit fee for the statutory audit is Rs. 50,000 plus VAT.

Separate fee is to be charged for Tax audit and Long Form Audit Report depending upon the time and category of the staff.

2. Comment and give views with reason on each of the following cases:

a.

i) Sagarmatha Ltd wants to amend its accounts after the completion of the audit and adoption of the annual audited accounts by the Board, but before circulation to the shareholders. Statutory Auditor requires to report on the amended accounts. State the steps the statutory audit should adopt in such a situation. **5 marks**

ii) BP Ltd. has accumulated losses of Rs.10 crores. The Reserves and Surplus of the said company also include "Share Premium Account" of Rs. 20 crores. The company intends to adjust the accumulated losses against the "Share Premium Account". Is the company permitted to do so under the provisions of the Companies Act, 2063? **5 marks**

b. Reliance Power Ltd. is a power generating company which uses coal as raw material for its power generating plant. The company has been allotted coal blocks in the state of Lumbini and Karnali. During the financial year 2077/78, a scam regarding allotment of coal blocks was unveiled leading to a ban on the allotment of coal blocks to various companies including Reliance Power Ltd. This happened in the month of Magh 2077 and as such entire power generation process of Reliance Power Ltd., came to a halt in that month. As a result of such ban, and the resultant stoppage of the production process, many key managerial personnel of the company left the Company. There were delays in the payment of wages and salaries and the banks from whom the company had taken funds for project financing also decided not to extend further finance or to fund further working capital requirements of the Company.

Further, when discussed with the management, the statutory auditor understood that the Company had no action plan to mitigate such circumstances. Further, all such circumstances were not reflected in the financial statements of Reliance Power Ltd.

What course of action should the statutory auditor of the Company consider in such situation?

10 marks

Answer:

2. a.

i) Amendment of annual audited accounts after the completion of the audit and adoption of the Accounts by the Board before circulation to the shareholders: This pertains to the manner in which the statutory auditor should report upon amended accounts.

The Company Act does not contemplate the revision of accounts and a further report by the statutory auditor on the amended accounts. At the same time, it is entirely within the competence of the Board of Directors to amend the accounts and resubmit the same to statutory auditors for report before the accounts are placed before the annual General Meeting. The report issued by the statutory auditor on such amended accounts will be in substitution of the report issued before the amendment. Unless all copies of the original accounts and reports are returned to the auditor, such substitution is not possible.

While issuing Auditor's report on revised accounts of companies before circulation to shareholders, when called upon to issue a report on amended accounts for the same period due to amendments to the accounts, auditor should ensure all copies of the original accounts and reports are returned to him, adequate disclosure about the revision of accounts already reported, appears as a specific note on the amended accounts.

If the Statutory auditor is satisfied about the adequacy of disclosure, there may not be any need for him to refer to the revision of financial statements in his report otherwise he has to refer to the revision in his report.

Accordingly, the statutory auditor of Sagarmatha Ltd can report on the amended accounts upon fulfilling the steps mentioned above.

- ii) As per section 29 (2) of the Companies Act, 2063, where the shares are sold at a premium, a sum in excess of the face value, out of the proceeds thereof, shall be deposited in a premium account to be opened to that effect.

Section 29 (3) of the Companies Act, 2063 deals with the application of premium received as follows:

- (a) Paying up un-issued share capital to be issued to the shareholders as fully paid bonus shares, (b) Providing for the premium payable on redemption of any redeemable preference shares, (c) Writing off the preliminary expenses made by the company, (d) Bearing or reimbursing the expenses of, or the commission paid, or discount allowed on, any issue of shares of the company. (e) In making a request for approval of the Office to issue shares at a premium pursuant to Sub-section (1), the audited financial statements for three years shall be provided to the Office.

In view of the above provisions of the Companies Act, 1963, the company is not permitted to adjust its accumulated loss against the Share Premium Account.

Answer

2. b.

NSA 570 "Going Concern" deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

When the use of going concern basis of accounting is inappropriate i.e. if the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgement, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

Also, when adequate disclosure of a material uncertainty is not made in the financial statements the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with NSA 705 (Revised); and in the basis for Qualified (Adverse) Opinion section of the

auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

In the present case, the following circumstances indicate the inability of Reliance Power Ltd. to continue as a going concern:

- Ban on the allotment of coal blocks
- Halt in power generation
- Key Managerial Person leaving the Company
- Banks decided not to extend further finance or to fund further working capital requirements of the Company
- Non availability of sound action plan to mitigate such circumstances

Therefore, considering the above factors it is clear that the going concern basis is inappropriate for the Company. Further, such circumstances are not reflected in the financial statements of the Company. As such, the statutory auditor of Reliance Power Ltd. should:

- i. Express an adverse opinion in accordance with NSA 705 (Revised) and
In the Basis of Opinion Paragraph of the auditor's report, the statutory auditor should state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.
3.
 - a) Mr. Alok is appointed as statutory auditor of Tesla Ltd. Tesla Ltd is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2063 and appointed Mr. Bibek as its internal auditor. The external auditor Mr. Alok asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements.
 - i. Discuss whether Mr. Alok, statutory auditor, can ask direct assistance from Mr. Bibek, internal auditor as stated above in view of auditing standards. **4 marks**
 - ii. Will your answer be different, if Mr. Alok ask direct assistance from Mr. Bibek, internal auditor with respect to external confirmation requests and evaluation of the results of external confirmation procedures? **4 marks**
 - b) The management of Brave Limited has prepared its summary financial statements for the year 2077/78 to be provided to its investors. The company wants to appoint you for conducting audit of summary financial statements. What are the procedures that you will perform and consider necessary as the basis for forming an opinion on the summary financial statements? **7 marks**

Answer:

3. a

i) Direct Assistance from Internal Auditor:

As per NSA 610 "Using the Work of Internal Auditor", the external auditor shall not use internal auditors to provide direct assistance to perform procedures that Involve making significant judgments in the audit. Since the external auditor has sole responsibility for the

audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement.

Significant judgments include the following:

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

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

- ii) **Direct Assistance from Internal Auditor in case of External Confirmation Procedures:** NSA 610 "Using the Work of Internal Auditor", provide relevant guidance in determining the nature and extent of work that may be assigned to internal auditors. In determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned.

Further, in accordance with NSA 505, "External Confirmation" the external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditors. However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.

Answer:

3. b

As per NSA 810, "Engagement to Report on Summary Financial Statements", the auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

- a. Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements.
- b. When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
 - i. From whom or where the audited financial statements are available; or
 - ii. The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
- c. Evaluate whether the summary financial statements adequately disclose the applied criteria.
- d. Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.
- e. Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.

- f. Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements.
- 4.
- a) Discuss about the circumstances that might create conflict of interest for professional accountants in business. How do professional accountants address such conflicts of interests created? *8 marks*
- b) Describe the principle of the equitable treatment of shareholders as per corporate governance model of Organization for Economic Co-operation and Development. *7 marks*

Answer

- a) Handbook of Code of Ethics for Professional Accountants, 2018 issued by the Institute, in Section 210, provides for conflicts of interest.

A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles.

Circumstances that might create conflict of interest for professional accountants in business

Following are some examples of circumstances that might create a conflict of interest include:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one organization that might be used by the professional accountant to the advantage or disadvantage of the other organization.
- Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the accountant to assist them to dissolve their partnership.
- Preparing financial information for certain members of management of the accountant's employing organization who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the employing organization when an immediate family member of the accountant might benefit financially from the transaction.
- Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the accountant or an immediate family member.

Addressing the Conflicts of Interests

A professional accountant in business shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying the nature of the relevant interests and relationships between the parties involved, and the activity and its implication for relevant parties. A professional accountant shall remain alert to changes over time in the nature of the activities, interests and relationships that might create a conflict of interest while performing a professional activity.

In general, the more direct the connection between the professional activity and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an

acceptable level. Examples of actions that might be safeguards to address threats created by conflicts of interest include (a) restructuring or segregating certain responsibilities and duties, (b) obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director.

It is generally necessary to disclose the nature of the conflict of interest and how any threats created were addressed to the relevant parties, including to the appropriate levels within the employing organization affected by a conflict; and obtain consent from the relevant parties for the professional accountant to undertake the professional activity when safeguards are applied to address the threat. If such disclosure or consent is not in writing, the professional accountant is encouraged to document: (a) the nature of the circumstances giving rise to the conflict of interest; (b) the safeguards applied to address the threats when applicable; and (c) the consent obtained.

Answer

- b) The equitable treatment of shareholders: The corporate governance framework should ensure the equitable treatment of all shareholders including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.
 - a. All shareholders of the same series of a class should be treated equally.
 - i. Within any series of a class, all shares should carry the same rights. All investors should be able to obtain information about the rights attached to all series and class of shares before they purchase. Any changes in the voting rights should be subject to approval by those classes of shares which are negatively affected.
 - ii. Minority shareholders should be protected from abusive action by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.
 - iii. Votes should be cast by custodians or nominees in a manner agreed upon with the beneficial owner of the shares.
 - iv. Impediments to cross border voting should be eliminated.
 - v. Processes and procedures for general shareholder meetings should allow for equitable treatment of all shareholders. Company procedures should not make it unduly difficult or expensive to cast votes.
 - b. Insider trading and abusive self-dealing should be prohibited.
 - c. Members of the board and key executives should be required to disclose to the board whether they, directly or indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.
5. Answer the following:
- a)
 - i) Champa Ltd a listed company was incurring heavy losses since last several years and the industry in which it was functioning was not expected to perform better in the next few years. While finalizing the accounts for the year ended 31 Asadh 2078, the Finance Controller of the company decided to create a Deferred Tax Asset for the tax benefits that would arise in future years from the earlier year's losses that had remained unabsorbed in Income tax. **4 marks**

- ii) Define Emphasis of matter (EOM) & develop illustrative EOM paragraph as part of Audit Reports. **4 marks**
- b) The management of the XYZ Ltd. is interested to automate company's operational activities and planning to procure and install an Information Technology (IT) system suitable to their company. The management of the company is also equally concerned about the risks emerging from use of IT system. In this context, you, a Chartered Accountant (CA) and also a Certified Information System Auditor (CISA), have been approached by the management of XYZ Ltd asking about the specific risks posed by IT systems to the entity's internal controls. So, explain the management of XYZ Ltd., in brief, about the specific risks that might be posed by the IT systems to the company's internal controls. **7 marks**

Answer:

- a)
 - i) Accounting Standard 12 on "Income Tax", requires that deferred tax should be recognized for all timing differences, subject to the considerations of prudence in respect of deferred tax assets. The standard further states that where an enterprise has unabsorbed depreciation or carry forward of losses under the tax laws, deferred tax assets should be recognized only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized. In this context, virtual certainty supported by convincing evidence would mean that there is a reasonable certainty that the carry forward losses would be recouped in the future years. In the instant case, looking to the fact that the industry in which the company was functioning was not expected to perform well in the next few years, getting virtual certainty and convincing evidence for the same would be almost impossible. Hence, in the absence of virtual certainty for offset of the losses in future years, creating a deferred tax asset would not be possible for the company.

The statutory auditor would therefore have to qualify his report by stating that deferred tax assets have been created though there is no virtual certainty for getting the said benefit in income tax. He would also have to mention the amount by which the loss for the year has been understated and the amount by which the reserves are overstated.

- ii) An auditor's report can be modified for matters that do not affect the auditor's opinion. An "emphasis of matter" paragraph is such a type of notification in an audit report. In certain circumstances, such a paragraph is added to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such a paragraph does not affect the auditor's opinion. Such a paragraph is preferably included preceding the opinion paragraph and would ordinarily refer to fact that the auditor's opinion is not quantified in this respect. (Refer NSA 700).

An illustration of an emphasis of matter paragraph for a significant uncertainty in an auditor report is as follows:

"Without qualifying our opinion, we draw attention to note X of schedule to the financial statements. The entity is the defendant in a lawsuit alleging infringement of certain patent right

and claiming royalties and punitive damages. The entity has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate of the matter cannot presently be determined, and no provision for any liability, that may result, has been made in the financial statements.”

b.

Technology makes life easy by automating the company's activities. At the same time, it may pose new risks to the entity's internal controls.

As per NSA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, IT system also poses specific risks to an entity's internal control, including, for example:

- Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both.
- Unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or non-existent transactions, or inaccurate recording of transactions. Particular risks may arise where multiple users access a common database.
- The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.
- Unauthorized changes to data in master files.
- Unauthorized changes to systems or programs.
- Failure to make necessary changes to systems or programs.
- Inappropriate manual intervention.
- Potential loss of data or inability to access data as required

6. Write short notes on the following:

(5×3=15 marks)

- a) Forensic Audit
- b) Factors to consider in determining the use of Computer Assisted Audit Techniques (CAATs)
- c) Fraud Risk Factors (Fraud Triangle)
- d) Engagement Quality Control Review
- e) Circumstances wherein the ICAN Council Member's Seat is deemed to remain vacant

Answer:

- a) A forensic audit is an examination and evaluation of a firm's or individual's financial information for use as evidence in court. A forensic audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims. In addition, an audit may be conducted to determine negligence. Forensic auditing is a specialization within the field of accounting, and forensic auditors often provide expert testimony during trial proceedings. Most large accounting firms have a forensic auditing department as well. The audit covers a wide range of investigative activities performed by accountants. The process may also include serving as an expert witness in a fraud trial. A forensic audit could also cover situations that do not involve fraud or embezzlement, such as disputes related to a bankruptcy, business closures etc.

- b) Factors to consider in determining the use of Computer Assisted Audit Techniques:
- The IT knowledge, expertise and experience of the audit team.
 - The availability of CAATs and suitable computer facilities and data.
 - The impracticability of manual tests due to complex processing needed.
 - Effectiveness and efficiency in evaluating evidence involving large population.
 - Time constraints.
 - Cost constraints
- c) Fraud risk factors are events or conditions that indicate rationalizations or attitudes to justify a fraudulent action, indicate an incentive or pressure to perpetrate fraud; or provide an opportunity to commit fraud. There are broadly two types of fraud relevant to the auditor's consideration – that is, fraudulent financial reporting and misappropriation of assets.

For each of these types of fraud, the risk factors may relate to the three conditions which are known as fraud triangle.

- Incentives/pressures - an employee's mindset towards committing fraud
 - Opportunities - circumstances that allow fraud to occur
 - Attitudes/rationalizations - an individual's justification for committing fraud
- d) As per NSQC 1, the firm should establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures should:
- a. require an engagement quality control review for all audits of financial statements of listed entities;
 - b. Set out criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed; and to determine whether an engagement quality control review should be performed; and
 - c. Require an engagement quality control review for all engagements meeting the criteria established above.

The firm's policies and procedures should require the completion of the engagement quality control review before the report is issued. The firm should establish policies and procedures setting out:

- a. The nature, timing and extent of an engagement quality control review;
 - b. Criteria for the eligibility of engagement quality control reviewers; and
 - c. Documentation requirements for an engagement quality control review.
- e) The seat of a ICAN Council member shall be deemed to remain vacant, if
- i. He ceases to be a member of the Institute, provided that this provision shall not be applicable to the nominated Council member.
 - ii. The Council accepts his resignation,
 - iii. He, without giving a notice with reason, absents himself from three consecutive meetings of the Council,

- iv. His term of office expires,
- v. His non-compliance with the code of conduct referred to in Section 34 is proved,
- vi. He dies.

Paper 4: Corporate Laws

1. Answer the following questions:

a)

Mrs. A had made a contract prior to the incorporation of the X Tiles Limited. After its incorporation she held shares of the nominal value of Rs. 20000.00 having paid Rs. 10000.00. She is a director of the company till now. Company has just declared to be insolvent. In the light of the situation, answer the following questions with reference to the legal provision of the companies Act, 2063. (3+4+3)

i)

What is the validity of the pre-incorporation of the contract?

ii)

What is the liability of Mrs. A's as a director for matters contained in the prospectus of the company?

iii)

What is the liability of the Mrs. A's in reference to the principle of limited liability?

b)

The financial position of a ABC Co. Ltd is degrading day by day due to the existing fuel crisis and status of the business activities. Thus, certain creditors of the company are of the opinion that the financial status of the company is not satisfactory. Hence, they made up their mind to liquidate company as early as possible. In such situation, they approached you regarding the process to be adopted in this regard how would you suggest them relating to the following issues: (2+2+6=10)

i)

The situations when the Company deemed to have become insolvent.

ii)

Who can make an application for the compulsory liquidation of a company?

iii)

The commencement of the insolvency proceedings as per the Insolvency Act, 2063.

Answer: 1(a)

(i) Validity of the Pre-incorporation contract:

It is provided in section 17 of the Companies Act, 2063. Pursuant to the said section, a contract made prior to the incorporation of a company is called pre-incorporation contract. It shall be a proposed contract only, and such contract shall not be binding on the company. If, prior to the incorporation of a company, any person carries on any transaction or borrows money on behalf of the company, such person shall be personally liable for any contract related with the transaction so carried on. If, within the time mentioned in any transaction or within the reasonable time after the incorporation of a company, the company, through its act, action or conduct, accepts any act, action or conduct, accepts any act, action to borrowing done or made prior to the date of authorization to commence its transactions or endorses such act or action, that transaction shall be binding on the company and the other contracting party; and the person carrying out such act to action shall be released from the personal liability to be borne. The consensus agreement of a private company shall govern any contract made prior to the incorporation of such company.

In this instant case, it is not clear whether or not that the company has been endorsed pursuant to the section 17. However, the contractual terms whether it should be endorsing or not depends on the company's decision. If the company would not accept or endorse the contractual liability, then she is liable alone for the expenses or liability of the contract. In UK, the Companies Act,

2006, Section 51, has not endorsed the liability of the company and person who has incurred any amount for the company, himself/herself has been liable for pre-incorporation contract.

(ii) Liability of the Mrs. A's as a director on matters contained in the prospectus:

Section 24 of the Companies Act, 2063 has provided the clear provision on the liability on matters contained in the prospectus published. Pursuant to this section, it shall be the duty and obligation of the concerned company to abide by the matters contained in the prospectus published under Section 23 of the Act. The directors who have signed the prospectus as referred to in Sub-section (1) shall be liable for the matters mentioned in that prospectus. If any published prospectus contains false statements made maliciously or deliberately and any person sustains any loss or damage by reason of his/her subscription of securities on the faith of that prospectus, the directors who have signed that prospectus shall be personally liable to pay compensation for the actual loss or damage so sustained. A promoter who resigns before the decision made by the company to publish the prospectus or whom on becoming aware of any false statement in the prospectus, publishes a notice of that matter to the information of the general public prior to the sale or allotment of securities or who proves that he/she did not know that the prospectus contained any false statement shall not be liable to bear such compensation.

It is clear that the above legal provision makes the director liable who has affixed his/her signature on the prospectus. Therefore, Mrs. X is responsible if she is a signatory of the prospectus. Otherwise, she is not responsible being mere a director.

Limited liability:

The principle of limited liability is one of the principal advantages of doing business under the corporate form of organization. The company is taken as an owner of its assets. So, the company is bound by its liabilities. The liability of a member as a shareholder extends to its contribution to the assets of the company up to the nominal value of the shares held and not paid by him/her.

Section 8 of the Companies Act, 2063 has accepted the principle and provided as the liability of a shareholder of a company incorporated under this Act in respect of its transactions shall be limited on to the maximum value of shares which he has subscribed or undertaken to subscribe.

Members, even as whole, are neither the owners of the company's undertakings, nor liable for its debts. In other words, a shareholder is liable to pay the balance, if any, due on the shares held by him, when called upon to pay and nothing more, even if the liabilities of the company far exceed its assets. This means that the liability of a member is limited up to the value and number of the shares he/she promise. If any transaction is carried on with intent to defraud creditors, the court may declare the persons who were knowingly parties to the transaction as personally liable without limitation of liability for all or any of the debts/liabilities of the company.

In the instant case, Mrs. X has promised to pay Rs. 20,000.00. She has paid only half of the amount Rs.10000.00. Now, she has to pay the remaining call amount Rs. 10,000.00. The principle of limited liability refers to Mrs. X, that she has to pay or is liable for remaining call amount. However, if any shareholder, has carried on any transactions with intent to defraud creditors then he/she should pay the questioned transaction amount. In this case, the defraud question is not in requirement so she is not responsible. But if the question is raised then she should be responsible in accordance with law requires.

Answer:

1(b)

i) Pursuant to Section 7(1) of the Insolvency Act, 2063 a Company is deemed to have become insolvent on the following condition:

(a) The general meeting of shareholders adopts a resolution that the company has become insolvent or a meeting of the board of directors of the company makes such decision; or

(b) The Court issues an order requiring the company to pay the debt and the debt is not paid up within thirty five days from the date of receipt by the company of such order; or

(c) The company fails to pay the debt within thirty five days after the service by the creditor on the company a notice for the payment of the debt or fails to make an application to the Court within the said period to void such notice.

As per the proviso clause of Section 7(2) nothing contained in this Section shall prevent the establishing of the fact that a company has become insolvent where it is proved from any other matter that the liability of the company exceed the value of the assets of the company or the company itself admits that it has become insolvent.

- i. Pursuant to Section 4(1) of the Insolvency Act, 2063, where it is required to institute insolvency proceedings against any company an application has to be made to the court in a prescribed form by any of the following persons: A company itself which has become insolvent;
 - ii. At least ten percent creditor or creditors who has or have lent money to the company;
 - iii. Shareholder or shareholders that has or have subscribed at least five percent of shares,
 - iv. Debenture-holder or debenture-holders that has or have subscribed at least five percent of debentures,
 - v. A liquidator who has been appointed to liquidate a company; or
 - vi. In the case of a company that carries on any specific type of business set forth in Section 8, like bank or insurance business, a body authorized to administer and regulate such business.
- ii) Pursuant to Section 4(2) of this Act, in order for an application to be made pursuant to Sub-section (1) above, a period of thirty -five days should have been expired after a notice issued to pay the debt referred to in Section 5 of this Act has been duly served on the concerned company.

Pursuant to Section 4(3) of this Act, every application to be made pursuant to Sub-section (1) shall be accompanied by the reason for making the application, short description of the financial condition of the company and the evidence supporting the fact that the company has become insolvent and the following details, as well:

(a) Where the company itself which has become insolvent makes such application:

(1) A document certified by the board of directors of the company, mentioning that the company has become insolvent;

(2) A special resolution adopted by the board of directors of the company to institute the insolvency proceedings pursuant to this Act;

(3) Certified copies of the balance sheet and audit report of the company available at the time of making application for the institution of insolvency proceedings.

(b) Where the creditor of a company which has become insolvent makes such application:

(1) A statement of the principal and interest of the debt which the creditor claims to be due and payable by the company;

(2) The date on which the company borrowed the debt claimed by the creditor and the reason why the debt was borrowed;

(3) Description that the amount referred to in Clause (1) is due and such amount is payable immediately;

(4) That the debtor believes or the reason and ground the debtor has to believe that the company in respect of which demand is made for insolvency proceedings has become insolvent.

(c) Where the liquidator makes such application:

(1) Evidence that the company in respect of which application is made for insolvency proceedings has appointed the liquidator for the purposes of liquidation of the company; and

(2) The opinion expressed by the liquidator on the matter that the company in respect of which application is made for insolvency proceedings has become insolvent, and the ground for such opinion.

(4) Notwithstanding anything contained elsewhere in this Section, any shareholder or debenture-holder of a company shall obtain permission of the Court to make an application for insolvency proceedings pursuant to Clause (c) or (d) of Sub-section (1), and the shareholder or debenture holder may, If so permitted, make an application on such terms and conditions as may be specified by the Court.

(5) The Court shall not give permission referred to in Sub-section (4) unless and until sufficient evidence proving that the company has become insolvent is produced.

Pursuant to Section 5 of this Act, prior to making an application to the Court as per Section 4 for insolvency proceedings, a notice should be sent to the registered office of the company in the prescribed form for the payment of debt by the creditor or by his authorized agent.

Pursuant to Section 6(1) where the notice received pursuant to Section 5 is not reasonable or where there are any other reason for not repaying the debt immediately, the concerned company may make an application to the Court in order to void the notice, not later than thirty five days after the date of receipt of that notice.

(2) Where the application referred to in Sub-section (1) is made, the Court will issue a notice summoning the creditor giving the notice referred to in Section 5 to appear before the Court within seven days; the notice to be so issued shall also be accompanied by a copy of such application.

(3) The Court may make a decision to void or not to void the notice issued pursuant to Section 5 no later than seven days after the date of appearance of the creditor pursuant to Sub-section (2) or after the date of expiration of the time prescribed for the appearance before the Court where the creditor has failed to make such appearance.

(4) The Court may issue an order to void the notice issued pursuant to Section 5 on the following condition:

- (a) There is a clear dispute as to whether the creditor has extended debt to the company or not; or
- (b) The debt due to be paid by the company to the creditor does not appear to be payable immediately.

(5) Where the Court issues an order pursuant to Sub-section (4), notice that is issued to pay the debt can be given to the company again on the same matter nor can an application be made for the institution of insolvency proceedings until the condition set forth in that Sub-section continues to exist.

(6) Where the Court does not issue an order pursuant to Subsection (4), the company should pay the debt of creditor no later than thirty five days from that date.

2. Answer the following questions:

a)

How does Nepal Rastra Bank mobilize Foreign Exchange Reserve? Explain it in the light of the Nepal Rastra Bank Act, 2058. 7

b)

Gautam Buddha International Airport had published a bid for construction of a terminal building on 2078 BS. S and S JV submitted a bid with other four companies. Those bids were opened and submitted before bid examination committee. You are appointed as a consultant of public procurement and invited you in the meeting. What are the processes of bid examination as mentioned in the Public Procurement Act, 2063 (PPA)? Prescribe to the Committee. 7

c)

Auditor General of Nepal has to submit annual report to the President of Nepal under article 294 of the Constitution of Nepal. Explain the matter to be included in the Auditor General Reports referring the provisions of Audit Act, 2075. 6

Answer:

a)

In pursuance to section 66 of Nepal Rastra Bank Act, 2058, NRB shall mobilize Foreign Exchange Reserve in the following manner:

(1) NRB shall mobilize the foreign exchanges reserve. Such reserve shall be denominated in the respective foreign exchange and such reserve shall consist of the following assets:-

(a) Gold and other precious metals held by or for the account of NRB;

(b) Foreign currencies held by or for the account of NRB;

(c) Foreign currencies held in the accounts of NRB on the books of a foreign central bank or other foreign banks;

(d) Special drawing rights (SDR) held by NRB at the International Monetary Fund;

(e) Bill of exchange, promissory note, certificate of deposit, bonds, and other debt instrument payable in convertible foreign currencies issued by any debtor or liability holder and held by NRB;

(f) Any forward purchase or repurchase agreements of NRB concluded with or guaranteed by foreign central banks or public international financial institutions, and any futures and option contracts of NRB providing for payment in freely convertible foreign currency.

(2) While selecting the assets referred to in Sub-section (1), due consideration should be given to NRB's capital and liquidity to maximize earnings.

(3) NRB shall maintain international reserve at a level, which shall be adequate for the execution of monetary and exchange rate policies and for the prompt settlement of the international transaction.

(4) If international reserves have declined or, in the opinion of Bank, are in danger of declining to such an extent as to jeopardize the execution of the monetary or exchange rate policies in the prompt settlement of the country's international transactions, NRB shall submit to Government of Nepal a report on the international reserves position and the causes which have led or may lead to such a decline, together with such recommendations as it considers necessary to remedy the situation.

(5) Until such time as, the situation referred in Sub-section (4) has been rectified, NRB shall make further such report and recommendations to Government of Nepal.

(6) NRB shall hold the foreign exchange reserve referred to in sub-section (1) in its balance sheet.

b)

Answer:

Bids are examined with compliance of the process as mentioned in the section 23 of Public Procurement Act, 2063. The public entity shall open the bids submitted to Bid Evaluation Committee. The Committee shall, prior to evaluating the bids submitted pursuant to sub-section (1) of Section 23, examine the bids and ascertain the following matters:

- (a) Whether the documents establishing that the bidder is qualified under law to submit the bid have been submitted or not,
- (b) Whether the bid is complete in accordance with the instructions to bidders set forth in the bidding documents or not, and whether it is signed by the bidder or by the bidder's authorized agent or not,
- (c) Where a bid security is required to be submitted along with the bid, whether the bid security of such type, period and amount as set forth in the bidding documents is accompanied with the bid or not,
- (d) Whether the bid is substantially responsive to the technical specifications set forth in the bidding documents and to the terms and conditions of procurement contract attached with the bidding documents or not.

The committee shall examine the completeness of the bid pursuant to clause (b) of sub-section (2) of Section 23 and the following matters shall be examined (Section 23(3)):

- (a) Whether a power of attorney for the authorized agent or local agent of the bidder has been submitted or not,
- (b) Where a joint venture agreement is necessary, whether such an agreement has been submitted or not,
- (c) Whether the documents substantiating the eligibility of the bidder and of the goods mentioned by the bidder have been submitted or not,

- (d) Whether the necessary documents relating to the qualifications of the bidder have been submitted or not,
- (e) Where the bidding documents require the submission of a rate analysis, whether such a rate analysis has been submitted or not,
- (f) Other matters as prescribed.

Other process (Section 23 (4) to (10)):

- Ask the bidders for necessary information.
- The concerned bidder shall provide the information sought by the public entity without any change or alteration in the bid price or other substantial matters of the bid shall be allowed.
- It shall be examined whether the qualification of the bidder conforms to the prequalification or not.
- If the qualification of a bidder is found to be substantially lower than the qualification which was at the prequalification stage, the bid of such a bidder shall be rejected.
- If any arithmetical error is found in a bid, the public entity may correct such an error, and where, in making such correction, there exists a discrepancy between the unit rate and the total amount, the unit rate shall prevail, and the total amount shall be corrected as per that rate.
- Where there is a discrepancy between the amount mentioned in figures and that in words by the bidder in a bid, the amount in words shall prevail.
- Where any error is corrected pursuant to sub-section (8) or (9), information of such correction shall be given to the concerned bidder.

c)

Answer:

Section 19 of the Audit Act, 2075 has explained the set of annual report to be submitted by the Auditor General of Nepal to the President pursuant to Article 294 of the Constitution of Nepal. Annual report should cover the followings:

- (1) The following matters shall be set out in the annual report to be submitted by the Auditor General to the President pursuant to Article 294 of the Constitution:
 - (a) Details of the functions performed by the Auditor General throughout the year,
 - (b) Summary of the main contents found from audit,
 - (c) Status of implementation of the audit reports and reforms to be made in the future,
 - (d) Other necessary matters.
- (2) The Auditor General may issue audit reports, along with the opinion, after completion of audits of the bodies referred to in sub-section (1) of Section (3).
- (3) The Auditor General may, in addition to the matters referred to in sub-section (2), also issue functional, information technology, forensic, gender, environmental and timely audit reports of the bodies referred to in sub-section (1) of Section (3).
- (4) The Auditor General may prepare individual annual report as to the functions of each Province and submit it to the Chief of the concerned Province.
- (5) The report submitted pursuant to sub-section (4) shall be submitted to the Provincial Assembly through the Chief Minister.
- (6) The Auditor General may, if it appears that a significant loss and damage has been caused to any movable or immovable national property or such a loss and damage may occur if immediate action is not taken, audit at any time such transactions and submit a report to the President or Chief of the Province, as the case may be.

(7) The report submitted by the Auditor General pursuant to this Section shall be made public.

3. Answer the following questions:

a)

Pan Singh Negi, a Nepali national and a notorious element was arrested in a hotel in Sinamangal, Kathmandu. During the search of his hotel room Nepal Police found with him a huge amount of money containing Nepalese currency, Indian Currency, US dollars, some Travellers Cheques, some VISA Cards and ATMs, one Kilogram of gold amounting more than the monetary limit under Asset (Money) Laundering Prevention Act, 2064 prescribed by Nepal Rastra Bank (NRB). Now the police has to start criminal investigations against him on money laundering offence as he has concealed huge amount of money lacking legal source of earning.

Answer the following Questions on the above factual background taking into account of the legal provisions of Asset (Money) Laundering Prevention Act, 2064: **(3+3+1=7)**

(i) What is money laundering?

(ii) Who will conduct criminal investigation and prosecution of case against Pan Singh Negi for Money Laundering offence?

(iii) What punishment could he be sentenced in case he is convicted for the offense of Money Laundering?

b)

Mr. John Vadureal, the US national, has invested in Hydropower business in Nepal. He sold the share he has owned to the Nepalese person. He has owned some profit from the business. He intended to repatriate the money as he obtained by the sale of shares and business profit. He consults you about the repatriation policy of Nepal. Provide the consultation about the repatriation provision as provided in the Foreign Investment and Technology Transfer Act, 2075 (FITTA). **7**

c)

RB Seth, an articled clerk of ZY Associates, desires to leave the articleship from his principal due to some misunderstanding between the principal and RB Seth. Nepal Chartered Accountant Regulations, 2061 has provided such option to the articled clerk to get resigned and to join to another chartered accountant firm. Explain the various reasons how the training of the articled clerk ended or seized under this rule. **6**

Answer:

a)

i) Money laundering (ML) is a crime of purifying illegal proceeds. It is a process of converting criminally earned proceeds into white or legal one. It is an attempt where the source of income and destination of illegal proceeds is either concealed or diverted or deviously obtained by entitling the illegal proceeds with the mask of legitimate appearance.

Money laundering is a punishable criminal offence under the Asset (Money) Laundering Prevention Act, 2064. This Act prohibits to commit money laundering. Section 3 of this Act defines money laundering in the following words:

(1) No person shall commit or cause to commit any of the following acts:-

(a) Converting and transferring property by any means knowing or having reasonable grounds to believe that it is proceeds of crime for the purpose of concealing or disguising the illicit origin of property, or assisting any person involved in the offence of evading legal consequences of offender.

(b) Concealing or disguising or changing the true nature, source, location, disposition, movement or ownership of property or rights with respect to such property knowing or having reasonable grounds to believe that it is proceeds of crime.

(c) Acquiring, using, possessing property knowing or having reasonable grounds to believe that it is the proceeds of crime.

(2) No person shall conspire to commit, aid, abet, facilitate, counsel, attempt, associate with or participate in the commission of the acts mentioned in subsection (1) above.

(3) Any person who commits any act mentioned in subsection (1) or (2) above, commits the offence of money laundering.

(a)(ii). An Asset Laundering Prevention Department established by the Government of Nepal under section 11 of the above Act, will make investigation, enquiry and prosecution of this case of money laundering offence. The Chief of this Department shall be headed at least by a first class officer of civil service. The chief shall in pursuance to section 14 of this Act make or cause to make preliminary inquiry if he receives complaint of money laundering pursuant to section 13 and information from Financial Information Unit pursuant to section 10 of this Act. The above Department may appoint or prescribe an Investigation officer to conduct investigation and inquiry of this offence.

So far as the prosecution of this case is concerned, if after the investigation and inquiry it is found that accused Pan Singh Negi should be convicted for the offence of money laundering for keeping, concealing and hiding the illegal money without his source of income, the Department shall write to the concerned government attorney for taking decision whether a case is to be filed against him or not. This Department shall file a case of money laundering against the accused Pan Singh Negi in the Special Court in case the Government Attorney decides in favour of filing a case against him, pursuant to section 22(2) of this Act.

(a)(iii). In case accused Pan Singh Negi is convicted of money laundering offense he shall be punished a fine two times of the proceeds or imprisonment from two years to ten years as per the gravity of the commission of the act pursuant to section 30 of this Act.

b) **Answer:**

Foreign Investment and Technology Transfer Act, 2075 (FITTA) has expressly provided the consent to do business in Nepal by foreign nationals. Section 20 has provided the repatriation of investment and earnings provision as follows:

(1) A foreign investor may, if it so wishes, repatriate its investment from Nepal by selling wholly or partly of the shares or industry having its investment in accordance with the prevailing Nepal law, after paying all such taxes as may be leviable in accordance with the prevailing Nepal law.

(2) A foreign investor may **repatriate the following amount** in the same foreign currency in which the investment has been made or other convertible foreign currency with the approval of the Nepal Rastra Bank, after paying the tax related liabilities under the prevailing law:

(a) Amount received from the sale of shares with foreign investment,

(b) Amount of profit or dividend received from foreign investment,

(c) In the case of liquidation or winding up of the industry or company, amount remaining after paying all liabilities following the liquidation or winding up,

- (d) Amount of royalty received under the technology transfer agreement, Provided, however, that in the case of the royalty or fee for the use of a trademark under the transfer of technology in a liquor industry other than a liquor industry exporting a certain percent of liquor, the amount of such royalty shall not exceed five percent of the total selling price, as prescribed, excluding the prevailing tax.
- (e) Amount of lease rent under the lease investment,
- (f) Amount received as damages or compensation, if any, received from the final settlement of a law suit, arbitration or any other legal process in Nepal,
- (g) Amount that can be repatriated in accordance with the prevailing law.
- (3) In repatriating amount in a convertible foreign currency in accordance with sub-section (1) or (2), it shall be repatriated by making conversion at the prevailing exchange rate.
- (4) Where any foreign investor has lent a loan to any industry or company against the pledge or mortgage of a movable or immovable property situated in Nepal and the movable or immovable property pledged or mortgaged required to be auctioned or forfeited because of non repayment of the principal or interest of such a loan, the institution lending such a loan may repatriate the principal and interest of the loan by auction of such property as if it were a bank or financial institution of Nepal.
- (5) In the case of termination of a lease agreement because of non-payment in accordance with the lease agreement or breach of its terms, the foreign investor may repatriate its investment and the property invested in the lease.
- (6) A foreign investor who wishes to repatriate the foreign investment or amount earned therefrom in accordance with this Section shall make an application, in the form as prescribed, to the foreign investment approving body for approval to that effect. Provided, that such an application shall be made to the Single Stop Service Centre, if the Government of Nepal, by a notification in the Nepal Gazette grants to the Single Stop Service Centre, the power to the body to give approval relating to repatriation of foreign investment or amount earned therefrom.
- (7) If, in examining an application received pursuant to sub-section (6), it appears that the foreign investor has fulfilled the terms and liabilities referred to in this Act, prevailing law and the agreement made in relation to foreign investment, the foreign investment approving body shall give approval to repatriate the foreign investment or amount earned therefrom not later than fifteen days of the date of receipt of the application.
- (8) After obtaining the approval pursuant to sub-section (7), the foreign investor may make an application to the Nepal Rastra Bank for the foreign currency exchange facility.
- (9) The Nepal Rastra Bank shall, upon receipt of an application in accordance with sub-section (8), provide the exchange facility to the foreign investor for the repatriation of foreign investment.
- (10) Where the amount of investment is to be repatriated by selling wholly or partly any industry with foreign investment or upon revocation of the registration of the industry or company for any reason, repatriation of the remaining amount may be made only after the payment or settlement of all liabilities including the tax payable by such an industry.
- (11) Notwithstanding anything contained elsewhere in this Section, a foreign investor may, in repatriating foreign investment made in any industry in accordance with this Act or profit earned therefrom, repatriate such investment or profit only to the extent of the ratio of the portion of its investment in the concerned company.
- (12) If any foreign investor is not satisfied with a decision made by the body giving such approval in the course of repatriation of the amount of its investment, the investor may make an application to the Ministry. The Ministry shall make a decision on such an application within thirty working days.

c) **Answer:**

Rule 33 of The Nepal Chartered Accountants Rules, 2061 has provided the conditions when the training of an articled clerk is terminated. The provisions are as follows:

1. The agreement as per sub rule (2) of Rule 24 between the principal and articled clerk shall be ended any time with the mutual understanding between the parties.
2. If the agreement between the two parties ended, the matter signed by both parties shall be informed to the Institute of Chartered Accountant within 7 days of the events occurred.
3. The articled clerk who has ended the article clerk from one principal shall arrange another articled clerk training with another principal for the remaining period. The articled clerk (trainee) shall formally be registered with such article clerk formally.
4. The principal has authority to initiate the termination of the articled clerk training if the trainee is absent for a period of 15 or more days without informing the principal and shall initiate to terminate the articled clerk training and shall write the letter to the Institute.
5. The Institute shall investigate the matters and if the application to terminate the articled clerk training is justified, the Institute shall terminate the articled clerk training from the applicant principal.
6. The principal after the termination of the existing articled clerk from his audit firm, there will be the vacancy of articled clerk under his principal.
7. Notwithstanding anything mentioned above rules, the principal with the prior approval from the Institute and the articled clerk with the one-month prior notice may terminate the articled clerk training from that audit firm where he/she was getting training.

4. Answer the following questions:

a)

Irrigation Office of Jumla has prepared cost estimate for the construct of canal in Tila river. The total cost of the project comes to Rs. 20 million and the officer in charge (third class officer) has approved the cost estimate. Whether a third class officer can approve the above cost for the construction of canal in Tila river is questioned by the Irrigation Division Office, Surkhet. You as a procurement consultant advise the officer the fact as mentioned in the procurement rules 2064 on the authorization to approve the cost estimate of the project referring the various provisions of the Rules.

8

b)

Insurance Policy Holder 'X' feels that Insurance Agent and Surveyor have acted against the rights and interest of him which caused him loss. Despite 'X's Policy claim no one was prepared to pay him compensation for the losses he sustained. Now in view of the legal provisions as per Insurance Act, 2049, suggest 'X' who is to pay him insurance compensation and the way out for recovering such compensation.

7

Answer:

a) Rule 14 of the Public Procurement Rules, 2064 has defined the approval of cost estimate as follows:

- (1) A cost estimate prepared pursuant to Rules 10, 11 and 13 has to be approved by the following authority:
 - (a) The cost estimate that does not exceed ten million rupees, by the gazetted third-class chief of office,
 - (b) The cost estimate that does not exceed fifty million rupees, by the gazetted second-class chief of office,

- (c) The cost estimate that does not exceed one hundred million rupees, by the gazetted first-class chief of office,
 - (d) The cost estimate that exceeds one hundred million rupees, by the head of department.
- (2) The cost estimate prepared pursuant to Rule 12 has to be approved by the following authority:
- (a) The cost estimate that does not exceed one million rupees, by the gazetted third-class chief of office,
 - (b) The cost estimate that does not exceed two million five hundred thousand rupees, by the gazetted second-class chief of office,
 - (c) The cost estimate that does not exceed five million rupees, by the gazetted first-class chief of office,
 - (d) The cost estimate that exceeds five million rupees, by the head of department.
- (3) If the chief of the public entity himself or herself cannot approve the cost estimate pursuant to this Rule or the description referred to in Rule 5A., he or she shall cause such a cost estimate or description to be approved by one level higher authority.
- (4) Notwithstanding anything contained elsewhere in this Rule, the secretary or administrative chief of a constitutional organ or body, Ministry, secretariat, and other office of similar nature may approve the cost estimate of any amount whatsoever for the procurement to be made for his or her office.

b)

Answer:

The Insurer has been made responsible to pay the Insured by section 17 of the Insurance Act, 2049 as under:

- (1) 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.
- (2) The Insured, in this case 'X', 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, or if the Insurer does not pay the compensation pursuant to Sub-section (1) above.
- (3) The Insurance Board shall make necessary investigation into the complaint submitted pursuant to Sub-section (2) above and shall provide a reasonable opportunity to the concerned Insurer to submit clarification upon such complaint.
- (4) If the clarification submitted by the Insurer pursuant to Sub-section (3) above, is reasonable, the Insurance Board may cancel such complaint by mentioning its ground(s). If the clarification is not reasonable, the Insurance Board shall make a decision to pay reasonable compensation to the Complainant.
- (5) If the Insurance Board decides to give compensation to the complainant pursuant to Sub-section (4) above, the Insurer shall pay such amount for the compensation to the concerned Insured.

- (6) If an appeal is made against a decision made by the Insurance Board to pay compensation to the complaint pursuant to Sub-section (4) above, and the decision of the Insurance 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.

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

- a) Parbat Cooperative Organization has recently been established in Phalebas. Discuss its statutory functions as specified in Co-operatives Act, 2074.
- b) Zink limited is a listed company and is planning to increase the capital so that it can expand its business in all over Nepal. However, the board is unaware how to increase the capital and ask you as a consultant to advise them the process to increase the share capital. You offer them to go in Further Public Offering (FPO) process to increase more capital for the company. Advise them the conditions and process of the FPO referring the Security Board's Securities Registration and Issue Regulation, 2073.
- c) Mrs. Kranti Singh, the chairman of the Nakul Dairy limited, issued bonus share after revaluating the assets of the Company. This company has also bought back its shares last year 2021. These two issues raised in the annual general meeting regarding its validity. So, the chairman consults you on this matter. He intends to know about the meaning of bonus share, its advantage, other condition for issuing bonus share. Provide the consultation to him referring the provision of the Companies Act, 2063.

Answer:

a) Functions of Cooperative Organization or Association are provided under section 25 of the Cooperatives Act, 2074 as under: The Cooperative Organization or Association shall carry out the following functions:-

- a) To comply with or cause to be complied with the values, norms and principles of cooperatives;
- b) To promote interests of members and its own and to carry out or cause to be carried out their marketing;
- c) To provide education, training and information to members and to promote or cause to be promoted good governance in Organization or Association;
- d) To promote or cause to be promoted mutual cooperation between Organizations and Associations;
- e) To determine standards of the products and services of the Organization or Association and to carry out functions as to quality reform, economic stability and risks management;
- f) To submit internal control system;
- g) To operate activities relating to commercial promotion and development of Organization or Association;
- h) To comply with the directives of the Ministry, Registrar, Province, local level or office;

i) To carry out functions referred to in the Byelaws.

b)

Answer:

Rule 14 of Securities Registration and Issue Regulation, 2073 has mentioned the further public offering (FPO) system and procedures as follows:

1. A public company who has already issued initial public offering (IPO) and who has already listed in the stock market shall issue further public offering (FPO) to increase the share capital.
2. The public company who wants to increase the share applying the FPO shall have to fulfill the following conditions:
 - a. The company has net profit at least for three latest years out of the total five years its operation and its net worth per share is higher than the paid up capital.
 - b. The public company has completed at least three years after the initial public offering (IPO).
 - c. Shareholders have approved the FPO agenda in the annual general meeting of the public company.
 - d. If the public company wants to issue FPO in the higher rate than the face value of the share shall have to follow the complete procedures of the FPO calculation and the public company shall have to justify the new higher rate with the different ways as mentioned in the procedures.
3. The public company who is interested to FPO has to get the approval from the Security Board of Nepal and the public company after the approval has to publish the prospectus to the public for FPO as prescribed.

c)

Answer:

Bonus Share Defined:

Section 2(q) of the Companies Act, 2063 has defined the term “Bonus share” as a share issued as an additional share to shareholders, by capitalizing the saving earned from the profits or the reserve fund of a company, and this term includes the increase of the paid up value of a share by capitalizing the saving or reserve fund.

A company may, if its Articles provide, capitalize its profits by issuing fully-paid bonus shares. The issue of bonus shares by a company is a common feature. When a company is prosperous and accumulates large distributable profits, it converts these accumulated profits into capital and divides the capital among the existing members in proportion to their entitlements. Members do not have to pay any amount for such shares. They are given free. The bonus shares allotted to the members do not represent taxable income in their hands. Issues of bonus shares is a bare machinery for capitalizing unsubscribed profits. The vesting of the rights in the bonus shares takes place when the shares are actually allotted and not from any earlier date.

Advantage of issuing Bonus Shares:

- Fund flow is not affected adversely.
- Market value of the Company's shares comes down to their nominal value by issue of bonus shares.
- Market value of the member's shareholdings increases with the increase in number of shares in the company.
- Bonus shares is not an income. Hence it is not a taxable income.
- Paid-up share capital increases with the issue of bonus shares.

Conditions of the issuing Bonus Share provided in the Companies Act:

- The company may use the moneys in the account that is managed with premium account as referred to in Sub-section (2) of section 29 of the Companies Act for paying up unissued share capital to be issued to the shareholders as fully paid bonus shares as per the Section 29(3)(a).
- Any company may issue bonus shares that they may be subscribed by its existing shareholders and employees only or issuing shares pursuant to Sub-section (9) of section 56 of the Companies Act, such company shall not be required to fulfill procedures as provided in this act and existing law of securities.
- No share capital shall be increased or bonus share issued by revaluating the assets of a company other than from profits made by the company or funds created out of profits as per the Section 56(10) of Companies Act.
- Once a company buys back any class of shares pursuant to this Section, the company shall not re-issue the shares of that class, except for the issue of bonus shares or payment of its liability, prior to the expiration of two years after such buy-back as per the Section 61(8) of this Act.
- A company may issue new shares to its shareholders as fully paid bonus shares, out of the capital redemption reserve funds.
- Special resolutions shall be presented in the general meeting of a company for decision on the issuing bonus share. Section 83(e)
- Bonus share shall be issued: Section 179

(1) A company may, by adopting a special resolution in the general meeting, issue bonus shares to its shareholders, out of the amount available for the distribution as dividend.

(2) Where a company is to issue bonus shares pursuant to Subsection (1), the company shall give information thereof to the Office before issuing such shares.

Validity of the issues:

In accordance with the legal provisions mentioned above, the issue of bonus shares with revaluating the assets of the Company is prohibited and thus it is not valid. The terms of buy back shares as mentioned in the section 61(8) couldn't affect to issue of bonus share. However, in this instant case, the issue of bonus share is not valid and it is meaningless for the buyback provisions.

6. Write short notes on the followings:

- a)
Implementation of Foreign award under Arbitration Act, 2055. **4**
- b)
Risk bearing fund under Financial Intermediary Act, 2055. **3**
- c)
Trade Organization (WTO). **3**

Answer:

- a) Pursuant to the section 34 of Arbitration Act, 2055, award taken in foreign country shall be implemented as follows:

(1) Application:

A party willing to implement an award made in foreign country in Nepal shall submit an application to the High Court. The following documents should be attached with the application.

- (a) The original or certified copy of the arbitrators 'award.
- (b) The original or certified copy of the agreement.
- (c) In case the arbitrators award is not in the Nepali Language, an official translation thereof in Nepali language.

(2) Recognition and implementation of foreign arbitral award:

In case Nepal is a party to any treaty which provides for recognition and implementation of decisions taken by arbitrators in foreign countries, any decision taken by an arbitrator after the commencement of this act within the area of the foreign country which is a party to that treaty shall be recognized and implemented in Nepal in the following circumstances subject to the provisions of that treaty and the conditions mentioned at the time of entering into the treaty.

- (a) In case the arbitrator has been appointed and award made according to the laws and procedure mentioned in the agreement.
- (b) In case the parties had been notified about the arbitration proceedings in time.
- (c) In case the decision has been taken according to the conditions mentioned in the agreement or upon confining only to the subject matters referred to the arbitrator.
- (d) In case the decision has become final and binding on the parties according to the laws of the country where the decision has been taken.
- (e) In case the laws of the country of the petitioner or the laws of the country where arbitration proceedings have been conducted, do not contain provision under which arbitration award taken in Nepal cannot be implemented.

(f) In case the application has been filed for the implementation of the award within 90 days from the date of award.

(3) Forward to the District Court:

In case the High Court is satisfied that the conditions mentioned in Sub-section (2) have been fulfilled in the application filed pursuant to Sub-section (1) it shall forward the award to the District court for its implementations.

(4) No award implemented:

Notwithstanding anything contained in this Section, no award made by an arbitrator in a foreign country shall be implemented in the following circumstances.

(a) In case the awarded dispute cannot be settled through arbitration under the laws of Nepal.

(b) In case the implementation of the award is detrimental to the public policy.

b)

Answer:

Section 25 of the Financial Intermediary 2055 has explained the risk bearing fund that has to be maintained by the organization for the possible losses during the transactions. The provision says further:

(1) The institution shall establish a separate risk bearing fund, in addition to the fund set forth in Section 24, for the purpose of bearing the possible loss and damage while disbursing the micro-credit, and the amount to be set as prescribed of the remaining total credit applied in the investment by the last day of each financial year shall be credited to this fund.

(2) The institution may invest the amount deposited in the fund pursuant to Sub-section (1) in the securities of the Government of Nepal or the Bank or periodic deposits of a commercial bank or financial institution.

(3) The amount deposited in the fund pursuant to Sub-section (1) shall be used only for the remission of the micro-credit. Where it is required to so remit the micro-credit, the institution shall obtain the approval of the Bank.

c)

Answer:

WTO stands for World Trade Organization, is the sole international body concerned with the provisions of cross-country trade, based in Geneva, Switzerland. Basically, there is an agreement called WTO agreement, which is duly signed and negotiated by member nations of the world and confirmed in their parliaments

In the real sense, WTO is a place, where the governments of member countries attempt to resolve their trade problems, encountered by them during the trade with other countries. The member governments (who can be ministers or their ambassadors or delegates) operate WTO and all decisions are also taken by consensus.

The organization helps the producers of goods and services deal in just and fair manner, to carry out their business throughout the world. It is aimed at liberalizing trade, for the benefit of all the nations, but it also imposes certain barriers, such as to provide protection to consumers or stop the spreading a disease.

The points of WTO can be listed as follows:

WTO is a global body, which superseded GATT and deals with the rules of international trade between member nations. WTO is a permanent institution along with a secretariat. The participating nations are called as member nations. WTO commitments are permanent. The scope of WTO is wider. WTO agreements are purely multilateral where the domestic legislation is not possible to continue. The dispute settlement system of WTO is very effective. In conclusion WTO is the foundation that made open trade between nations but also maintained some barriers for the benefit of all.

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

Subject: Advanced Financial Reporting

List of Questions	Specific Comments on the Performance of the Students
Question no. 1	Students were confused on Retained Earning calculation, mainly misunderstanding and miscalculation of revaluation of office building, and other component of equity, pension plan workout.
Question no. 2	a. Most students wrongly calculated deferred tax, interest receivable from Trade Receivable, Tax liability on remuneration. b. Few students attempted this question, lack of conceptual knowledge.
Question no. 3	a. Very well attempted the question. b. Most of the students got confused to calculate depreciation on building
Question no. 4	a. Students have shown little knowledge on joint venture. b. Students attempted well on intangible assets. c. Students have not prepared well on the question concept. d. Students have not prepared well on the question concept.
Question no. 5	a. Satisfactory performance b. Students were confused on calculation of effective rate.
Question no. 6	a. Students were confused on concept of acquirer. b. Students well attempted this part of the question.

Subject: Advanced Financial Management

List of Questions	Specific Comments on the Performance of the Students
Question no. 1	The concept of the IRPT is not clear with most students. There are lot of calculation error, basic concept of delaying in Income Tax is also not cleared by most of the students.
Question no. 2	The tax treatment of callable bond, one lapping interest is missing in many cases, some of the students could not calculate the time value of money for future cashflows.
Question no. 3	Satisfactory performance.
Question no. 4	Most of the students were confused in writing types of foreign currency risk and value at risk.
Question no. 5	Calculation of number of contract and weather client should take out /call option is not done by most of the students.
Question no. 6	Satisfactory performance

Subject: Advanced Auditing

List of Questions	Specific Comments on the Performance of the Students
Question no. 1	a. Students do not understand the question and answer is written without quoting NSA/NAS. b. Students answer the question without clarity of the issue.
Question no. 2	a. Students have explained only the subsequent events but could not give specific procedure. In case of loss set up, correct answer is given in most of the case. b. Satisfactory Performance.
Question no. 3	a. Students do not have clarity about the provision of NSA b. Wrong answer is written without knowing the provision of NSA.
Question no. 4	a. Students have given general answers rather the specific answer. b. OECD Principle explained properly by most of the students.
Question no. 5	a. Auditor's responsibility is not written by majority. b. Concept of EOM is not clear to majorities.
Question no. 6	Students were confused on EQCR with peer review. Satisfactory performance in other short questions.

Subject: Corporate Laws

List of Questions	Specific Comments on the Performance of the Students
Question no. 1	Satisfactory Performance
Question no. 2	Most of the students have not gone through the relevant legal provision properly. They need to improve legal understanding.
Question no. 3	Satisfactory performance.
Question no. 4	Most of the students have not answered 4(a) as a lack of legal provision and 4 (b) is done well.
Question no. 5	Most of the students have not properly stated relevant legal provision. They have attempted with general understanding only.
Question no. 6	Students have no clear understanding of the concerned provision of the regulations.