PRIME ACADEMY

28th SESSION PROGRESS TEST

Advanced Accountancy

TIME: 2 hours **PART A** **Maximum Marks: 75**

Choose the most appropriate Answer **(25*1=25 marks)**

1. The cash and credit sales of the branch are Rs.5,000 and Rs.15,000 respectively. The amount collected from the debtors is Rs.10,000.The amount to be credited to branch account under the debtors system will be

   a) Rs.20,000
   b) Rs.15,000
   c) Rs.10,000
   d) Rs 5,000

2. Stock Reserve in relation to closing stock appears

   a) On the debit side of the branch account
   b) On the credit side of the branch account
   c) Both on debit side and credit side
   d) None of the above.

3. Goods are sent to the branch at 20% margin on the selling price .Branch stock is Rs.1,00,000.The amount of stock reserve to be created is Rs.

   a) Rs.1,00,000
   b) Rs.25,000
   c) Rs.20,000
   d) Rs.10,000

4. In case of foreign branches, depreciation on fixed assets is converted

   a) At the rate at which fixed assets are converted.
   b) At the resulting rate on the date of trial balance
   c) At the average rate for the period
   d) At the opening rate.

5. When Branch “A” sends goods to branch “B” in the books of Branch “A” debit is given to

   a) Head office account
   b) Branch “A”
   c) Branch “B”
   d) Goods sent to branch account

6. When a branch purchases a fixed asset and the asset accounts is to be kept in the head office, branch

   a) Debits asset account
   b) Credits head office account
   c) Debits head office
   d) Credits asset account

7. When head office purchases a branch asset and the assets account is to be kept at the branch ,head office

   a) Debits branch assets account
   b) Credits branch current account
   c) Debits branch current account
   d) Credits branch assets account

8 .Under installment system of purchase ,interest suspense account is debited with

   a) The difference between installment price and cash price
   b) Amount of interest included in each installment
   c) Installment price and discounted cash price
   d) Installment price and cost price

9. Under hire –purchase system, the buyer becomes the owner of goods:

   a) Immediately after the receipt of goods
   b) Immediately after the down payment
   c) Immediately after the payment of last installment
   d) On signing of the contract.

10 . For each period interest is calculated on the balance of

   a) Cash price remaining unpaid
   b) Installment price remaining unpaid
   c) Cash price minus installment price
   d) HP price.

11. Debiting the asset account only with the cash price paid by the buyer is in accordance with the accounting concept of

   a) Conservatism
   b) Consistency
   c) Cost
   d) Matching

12. Under HP agreement the buyer

   a) Must return the property to the vendor
   b) Must not return the property to the vendor
   c) Has the option either to retain or return the property.
   d) Is the absolute owner.

13. The last installment paid under Hire-purchase comprises

   a) Cash price only
   b) Interest only
   c) cash price and installment
   d) Profit only.

14. Under Hire purchase system the depreciation is provided by

   a) The vendor
   b) The purchaser
   c) Both the vendor and purchaser
   d) The owner

15. Departmental trading accounts are prepared because of

a) Statutory requirements
b) Income Tax computations
c) Better presentation of financial statements
d) Better controllability.

16. Branch account under debtors system is

a) Real account
b) Nominal account
c) Personal account
d) Debtor account

17. Branch stock is prepared at

a) Invoice price
b) Cash price
c) Cost price
d) Net realizable value

18. Goods in transit appears in the

a) Head office books
b) Branch"s Books
c) Sender's books
d) Receiver's books

19.In case of a foreign branch ,head office balance is converted using

a) Opening rate
b) Closing rate
c) Average rate
d) None of the above

20. Goods sent to branch is closed by transfer to

a) Trading account
b) Purchases Account
c) Sales Account
d) Head office account.

21. Advertisement expenses are apportioned among the departments on the basis of

a) No of advertisement given.
b) Turnover
c) Quantity sold
d) Purchases

22. In case of independent branches the head office account in the books of the branch is analogous to

a) Proprietors Account
b) Capital account
c) Profit and loss account
d) Cash Flow statement

23. The difference between Cash price and HP price is

a) Installment due
b) Profit
c) Interest .
d) Profit+interest.

24.Department transfer are made at

a) Selling price
b) Invoice price
c) Cost price
d) Installment price.

25. Rent and rates are apportioned among various departments based on the

a) Floor area occupied
b) Rent paid
c) Muncipal taxes paid
d) Turnover.

PART – B

(50 Marks)

1. Red and Co. of Mumbai started a branch at Bangalore on 1.1.2008 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O

Following further details are given for the year ending on 31.12.2008:	Rs.
Cost of goods sent to branch	100000
Goods received by branch till 31.12.2008 at Invoice price	108000
Credit sales for the year	116000
Closing debtors on 31.12.2008	41600
Bad debts written off during the year	400
Cash remitted to H.O.	86000
Closing cash on hand at branch on 31.12.2008	4000
Cash remitted by H.O. to branch during the year	6000
Closing stock in hand at branch at invoice price	12000
Expenses incurred at branch	24000

   Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment a/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit. **(20 marks)**

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

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

	Rs.
Department X	36000
Department Y	27000
Department Z	18000

Stock lying at different departments at the end of the year is as under

	Dept. X	Dept. Y	Dept. Z
Transfer from Department X	--	15000	11000
Transfer from Department Y	14000	---	12000
Transfer from Department Z	*6000*	*5000*	--

(15 marks)

3. S.Ltd has a Hire- purchase department goods are sold on hire purchase at cost plus 60% from the following particulars draft Hire-purchase trading account and compute profit or loss for the year ended 31st March 2007.

Goods with customers on 1.4.2006 (installments are not due)	*3,20,000*
Instalments due on 1.4.2006 (customers are paying)	*20,000*
Goods sold on hire-purchase during the year (i.e., from 1.4.2006 to 31.3.2007)	*16,00,000*
Cash received from customers	*11,20,000*
Goods re-possessed from customers valued at 40%	*16,000*
Unpaid instalments in respect of re-possessed goods	*40,000*
Goods with customers as on 31.3.2007 (at hire-purchase price)	*7,20,000*

(15 Marks)

PRIME ACADEMY

28TH SESSION PROGRESS TEST

SUGGESTED ANSWERS

ADVANCED ACCOUNTANCY

PART – A

1	-	c
2	-	a
3	-	c
4	-	a
5	-	a
6	-	c
7	-	a
8	-	a
9	-	c
10	-	a
11	-	c
12	-	c
13	-	c
14	-	b
15	-	c
16	-	b
17	-	a
18	-	d

19	-	d
20	-	b
21	-	b
22	-	b
23	-	c
24	-	b
25	-	a

PART – B

1.

Branch Debtors A/c

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

Goods Sent to Branch A/c

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

Branch Cash A/c

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

Branch Stock A/c

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

Branch Expenses A/c

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

Branch Adjustment A/c

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

Branch P&L A/c

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

2.

	Dept X Rs.	Dept Y Rs.	Dept Z Rs.
Profit after ch mg commission	36.000	27,000	18,000
Add back	4,000	3,000	2,000
	---------	----------	---------
	40,000	30,000	20,000
Less: Unrealized profit on stock (Working Note)	4,000	4,500	2,000
	---------	----------	--------
Profit before Manager's commission	36,000	25,500	18,000
Less: Commission for Department Manager @ 10%	3,600	2,550	1,800
	---------	----------	---------

32,400	22,950	16,200

Working Note:

Stock lying with

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

3.

In the books of S Ltd.

Hire Purchase Trading Account

For the year ended on 31st March, 2007

	Rs.		Rs.
To Hire Purchase Stock	3, 20,000	By Hire Purchase Stock Reserve (W.N.1)	1, 20,000
To Instalments due	20,000	By Bank A/c (Cash received)	11, 20,000
To Goods sold on Hire Purchase	16, 00,000	By Goods Repossessed A/c	16,000
To Hire Purchase Stock Reserve (W.N.3)	2, 70,000	By Goods sold on hire purchase (loading) (W.N.2)	6, 00,000
To Profit and Loss A/c (balancing figure)	4, 26,000	By Hire purchase stock	7, 20,000
		By Instalments due (W.N.4)	60,000
	26, 36,000		26, 36,000

Working Notes:

		Rs.
1. Opening H.P. Stock reserve	3, 20,000 X 60/160	1, 20,000
2. Loading on goods sold on H.P.	16, 00,000 X 60/160	6, 00,000
3. Closing H.P. Stock reserve	7, 20,000 X 60/160	2, 70,000

4. Calculation of instalments due at the end of the year

Opening H.P. Stock + Opening Instalment due + H.P. Sales during the year (i.e. 3, 20,000+20,000+16, 00,000)		19, 40,000
Less: Cash received from customers	11, 20,000	
Instalments unpaid for repossessed goods	40,000	
Closing balance of H.P. Stock	7, 20,000	
	-------------	18, 80,000

Closing Instalments Due		60,000

PRIME ACADEMY

28TH SESSION PROGRESS TEST

ADVANCEDAUDITING

TIME: 2 hours **PART A** **Maximum Marks: 75**

(25x1= 25)

1 What is the meaning of independence of Auditor as per AAS 1
   a. The auditor must perform without bias with respect to client under audit
   b. The auditor must adopt critical attitude during the audit
   c. The auditor's sole obligation is to third parties
   d. The auditor may have a direct ownership interest in the client's business

2. What is the major reason for an independent auditor to gather evidence?
   a. To form an opinion on the financial statements
   b. To detect fraud
   c. To evaluate management
   d. To assess internal control

3. An auditor's working papers will generally be least likely to include documentation showing how the:
   a. Client's schedules were prepared
   b. Engagement had been planned
   c. Client's control risk had been assessed
   d. Unusual matters were resolved.

4. In which of the following situations is it least likely that the auditor would have been negligent in failing to detect a material misstatement of inventory?
   a. The auditor relied on a certificate provided by an independent expert
   b. The audit program is drawn up by an experienced auditor and was fully signed off by the junior staff member assigned to the audit of inventories.
   c. The senior partner called off further investigation of discrepancies after receiving personal assurance from the chairman of the company that the inventory was properly valued
   d. As in previous year, the auditor relied on the investigations of internal audit rather increase audit costs by duplicating the auditing work.

5. If a material financial fraud is detected, it should be reported.
   a. To management at least one level above where occurred.
   b. To the audit committee
   c. As a separate line item and adequately footnoted in the financial statements
   d. All the above.

6. From which of the following evidence gathering audit procedures would an auditor obtain most assurance concerning the existence of inventories?
   a. Observation of physical inventory counts
   b. Written inventory representations from management
   c. Confirmation of inventories in public warehouse
   d. Auditor's recomputation of inventory extensions

7. One reason that the independent auditor applies analytical procedures to the client's operations is to identify probable
   a. Material weakness in the control structure
   b. Unusual transactions
   c. Non compliance with prescribed control procedures
   d. Improper separation of accounting and other financial duties.

8. Significant unexpected fluctuations identified by analytical procedures will usually necessitate a/an
   a. Consistency related modification of the standard report
   b. Assessment of control risk
   c. Explanation in the representation letter
   d. Auditor investigation

9. Audit evidence can come in different forms with different degrees of persuasiveness. Which of the following is the least persuasive type of evidence?
   a. Assessed value, as evidence by tax bills
   b. Seller's book value, as evidenced by financial statements
   c. Insured value, as evidenced by insurance policies
   d. Appraised value, as evidenced by independent appraisals.

10. Which of the following is the least persuasive supporting an auditors opinion?
    a. Schedules of details of physical inventory counts conducted by the client
    b. Notation of an appraiser's conclusions documented in the auditor's working papers.
    c. Lists of negative confirmation requests for which the auditor received no response.

11. In a manufacturing company, which one of the following audit procedures would give the least assurance about the valuation of inventory on the audit date?
    a. Testing the computation of standard overhead rates
    b. Examining paid vendors invoices
    c. Reviewing direct labour rates
    d. Obtaining confirmation of inventories pledged under loan agreements.

12. The primary purpose of the auditor's assessment of control risk is to
    a. Determine whether procedures and records concerned with safeguarding assets are reliable
    b. Suggest improvement in internal control
    c. Determine the nature, extent and timing of audit tests to be applied
    d. Express an opinion

13. After assessing control risk and concluding that the control structure is well designed and functioning, as it should the auditor would most likely
    a. Cease to perform further substantive tests
    b. Not increase the extent of anticipated analytical procedures
    c. Increase the extent of anticipated analytical procedures

d. Perform all tests on control to the extent outlined in the preplanned audit program.

14. The auditor who becomes aware of reportable conditions is required to communicate these to
    a. The audit committee and board of directors
    b. Senior management
    c. The board of directors and internal auditors
    d. The internal auditors and senior management

15. Assuming an excellent internal control structure, which of the following audit procedures would be least likely to be performed?
    a. Physical inspection of a sample of inventory
    b. Search for unrecorded cash receipts
    c. Obtain a client representation letter
    d. Confirmation of accounts receivable

16. Internal control over cash receipts is weakened when an employee who receives customer mail receipts also
    a. Prepares initial cash receipts records
    b. Records credits to individual accounts receivable
    c. Prepares bank deposits slips for all mail receipts
    d. Maintains a petty cash fund.

17. For effective internal control, billing should be done by the
    a. Accounting department
    b. Sales department
    c. Shipping department
    d. Credit and collection department

18. The independence of the internal auditing department most likely will be assured if it reports to the
    a. President
    b. Controller
    c. Treasurer
    d. Audit committee of Board of directors

19. An auditor who accepts an audit but does not possess the industry expertise of the business entity should
    a. Engage financial experts familiar with the nature of the business entity
    b. Obtain knowledge of matters that relate to the nature of the entity's business
    c. Refer a substantial portion of the audit to another CA who will act as the principal auditor
    d. First inform management that an unqualified opinion cannot be issued.

20. What would an audit program prove?
    a. Sufficient competent evidential matter was obtained
    b. The work was adequately planned
    c. Compliance with generally accepted standards of reporting occurred.
    d. A proper assessment of control risk occurred.

21. Joint audit refers to

a. Conducting audit jointly by two auditors
b. More than one auditor carrying the audit of the entity for same financial year with clear division of audit work
c. Conducting audit by more than one expert of different fields jointly when there is suspicion of fraud in organization.
d. Conducting the audit jointly by more than one auditor as per the companies Act, 1956

22. When work is carried on by all the joint auditors jointly, each joint auditor is
    a. Responsible for the work which he actually carried on
    b. Severally and jointly liable
    c. Jointly liable
    d. Severally liable.

23. When there is difference of opinion among the joint auditors, AAS 12 states that
    a. Majority joint auditors opinion will prevail while reporting
    b. Each joint auditor will report separately
    c. The joint auditor who has different opinion can report separately and other joint auditors can report jointly
    d. None of the above.

24. Which of the following is ordinarily designed to detect possible material errors in the financial statements?
    a. Test of controls
    b. Analytical procedures
    c. Computer controls
    d. Post audit working paper review.

25. When financial statements are prepared on the basis of a going concern and the auditor believes that the client may not continue as going concern, should the auditor state?
    a. A disclaimer of opinion
    b. An unqualified opinion with an explanatory paragraph
    c. An ‘except for’ opinion
    d. An adverse opinion.

PART-B

Answer all questions

(10x5= 50)

1. What is an accounting estimate? What is the nature of an accounting estimate?

2. "Quality control is not confined to audit firm alone, it extends to individual audits also" Explain.

3. Explain the methods of selecting an audit sample?

4. How would you evaluate audit evidence considering the materiality factor and the existence of audit risk?

5. What are the responsibilities of a Joint Auditors?

6. What are the basic elements of a management representation letter?

7. Explain the purpose of AAS 10. Define 'Principal auditor' and 'other auditor'

8. Explain the powers and duties of an auditor as per the provisions of the Companies Act, 1956?

9. The directors of XYZ Company Ltd want to remove the auditors M/s. A & Co, Chartered Accountants being appointed in the previous year AGM before the expiry of their term. Can the Directors do so? Explain the legal position if the auditors resign themselves from the company before the expiry of their term?

10. Explain the provisions of the Companies Act, 1956 regarding the appointment of first and subsequent auditors of the company? In what circumstances and special resolution is required for appointment of auditors?

PRIME ACADEMY

28TH SESSION PROGRESS TEST

SUGGESTED ANSWERS

ADVANCED AUDITING

PART-A

.

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

24. (b)

25. (d)

PART - B

1. Accounting estimate means an approximation of the amount of an item in the absence of a precise means of measurement. For example, allowances to reduce inventory and accounts receivable to their estimated realizable value, provisions to allocate the cost of fixed assets over their estimated useful life, provision for taxation, provision to meet warranty claims, provisions for retirement benefits etc.

   The nature of accounting estimate is given in following points:-

   1. The determination of accounting estimate may be simple or complex, depending upon the nature of the item. Complex estimates require a special knowledge and judgment.

   2. Accounting estimates may be determined as a part of the routine accounting system operating on a continuing basis or this may be non routine, operating only at the end of the period.

   3. In many cases, accounting estimates are made by using a formula based on experience, such as the use of standard rates for depreciating each category of fixed assets. The management should formulate on a regular basis.

   4. The uncertainty associated with an item, or the lack of objective data may make it incapable of reasonable estimation, in which cases the auditor needs to consider the same while expressing his opinion on the financial statements.

2. Quality control policies and procedures should be implemented at both the level of audit firm and on individual audits. The quality control policies applicable to firm should be implemented for individual audits to the extent applicable. The audit work should be delegated to assistants with professional competence and should be appropriately directed and supervised. The work of assistants should also be reviewed.

   Direction: Audit assistants should be informed of the nature of business and possible accounting or auditing problems. They should be explained of what is expected of them and how to achieve it. They should be informed about the importance of audit program, time budgets and overall audit plan.

   Supervision: Persons carrying out supervisory responsibilities should monitor the progress of audit, become informed of and address significant accounting and auditing questions raised during the audit, resolve the differences of professional judgment and consider the level of consultation as appropriate.

Review: Review of work audit staff should be carried out to ensure that the work has been performed as per the audit program; work performed has been adequately documented, all significant matters have been resolved or are reflected in audit conclusions, objectives of the audit procedures have been achieved and conclusions expressed are consistent with the work performed.

3. The auditor should select sample items in such a way that the sample can be expected to be representative of the population. This requires that all items in the population have an opportunity of being selected. While there are a number of selection methods, three methods are commonly used:-

   (i) Random selection, which ensures that all items in the population have an equal chance of selection, for example by use of random number tables.

   (ii) Systematic selection which involves selecting items using a constant interval between selections, the first interval having a random start. The interval might be based on a certain number of items. When using systematic selection, the auditor would need to determine that the population is not structured in such a manner that the sampling interval corresponds with a particular pattern in the population.

   (iii) Haphazard selection, which may be an acceptable alternative to random selection, provided that the auditor attempts to draw a representative sample from the entire population with no intention to either include or exclude specific units. When the auditor uses this method, care needs to be taken to guard against making a selection that is biased, for example towards items which are easily located as they may not be representative.

4. The auditor's assessment of materiality and audit risk may be different at the time of initial planning of engagement from that at the time of evaluating the results of his audit procedures, because the circumstances or auditor's knowledge might have changed as a result of audit. In forming his opinion on the financial statements the auditor should consider the material effect of aggregate uncorrected misstatements on the financial statements. The aggregate of uncorrected statements comprises:
   Specific misstatements identified by the auditor and

   The Auditor's best estimate of other misstatements which cannot be specifically identified.

   If the aggregate of the uncorrected misstatements reaches the materiality level or if the auditor determines that the aggregate of uncorrected misstatements causes the material misstatement of financial information, he should consider requesting the management to adjust the financial information or extending his audit procedures.

5. Normally, the joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion

through a separate report. A joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the report and should express his opinion in a separate report in case of disagreement.

6. The basic elements of management representation letter are as follows:-
   It should be addressed to the auditor

   It should be dated and signed by the designated authority

   The date of management letter should be the date as that of in the auditor's report or a date earlier to the auditors report.

   In certain circumstances, in respect of specific transactions, separate representation letter may also be obtained.

7. The purpose of this standard is to establish standards to be applied in situations where a principal auditor reporting on the financial information of the entity uses the work of other auditor with respect to the financial information of one or more components included in the financial information of the entity. This standard also lays down the principal auditor's responsibility in relation to his use of the work of the other auditor. It is to be noted that the term 'financial information' encompasses 'financial statements'

   When the principal auditor uses the work of another auditor, the principal auditor should determine how the work of the other auditor will affect the audit. The different terms used in this AAS are defined below:

   "Principal Auditor" means the auditor with responsibility for reporting on the financial information of an entity when that financial information includes the financial information of one or more components audited by the principal auditor.

   "Other auditor" means an auditor, other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial information audited by the principal auditor.

8. The various powers of the Auditors are as follows:
   1. The auditor has got access to books and vouchers
   2. The auditor has right to obtain all information and explanation
   3. The auditor has got right to visit branch offices and access to branch accounts.
   4. The auditor has got right to attend General Meeting.

5. The auditor has got lien on his client's books and records which is unconditional.

The various duties of the Auditor are as follows:

1. The auditor has to state in his opinion and to the best of his information and according to the explanation given to him; the accounts give a true and fair view. The guidelines to be followed in this aspect are: The Balance sheet and the profit and loss account should be as per requirement of the Companies Act, 1956.
2. There should not be any window dressing in the books of accounts and the financial statements.
3. All material facts should be properly disclosed.
4. All usual, exceptional or non recurring items should be disclosed separately.
5. The financial statements should convey the required information clearly.
6. Auditor has to state whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit.
7. He is required to state whether in his opinion, proper books of accounts as required by law have been kept by the company, so far as appears from his examination of these books, and proper returns adequate for the purpose of his audit have been received from branches not visited by him.
8. Whether the company's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns.
9. He will state whether the report on the accounts of any branch office audited under section 228 by a person other than a company auditor has been forwarded to him and how he was dealt with the same in preparing auditor's report.
10. Whether in his opinion the balance sheet and profit and loss account comply with the accounting standards referred to in Section 211 of the companies act, 1956.
11. Duty to confirm that management has not exceeded the financial administrative powers vested in it by the articles or by any specific resolution of the shareholders recorded at a general meeting.
12. Duty to perform by exercising reasonable skill and care.
13. Duty to investigate the matters in which his suspicion is aroused as to the result of a certain action on part of the servants of the company.

9. The provisions of Section 225 shall be applicable for removal of auditors. For removal of first auditors appointed by the Board of Directors, no approval of Central Government is required. However, a special notice of at least 14 days is required for the appointment of any other person in his place.

Auditors (Other than the first auditors) can be removed by the company at a general meeting only after obtaining approval from the central government. Thus, it is quite difficult to remove auditors before the expiry of his term since adequate grounds must exist to prove to government that the auditor to be removed is unsuitable to the company.

10. Under Section 224(5), the first auditors shall be appointed by the Board of Directors within on month of date of incorporation of the company.

Such auditors will hold office until the conclusion of first AGM. If Board of Directors fails to appoint the first auditors, the company at the general meeting may do so.

The retiring auditor is eligible to be reappointed in the AGM upon passing a resolution in the meeting.

Auditors are generally appointed by way of ordinary resolution. However, in case of a company in which not less than 25% of the subscribed share capital is held, whether singly or in any combination by

- A Public financial institution
- A central government
- State government
- Any financial institution established under provincial or state act in which a state government holds not less than 51% of subscribed capital
- A nationalized bank
- An insurance company carrying on General insurance business.

PRIME ACADEMY

28th SESSION PROGRESS TEST

LAW ETHICS AND COMMUNICATION

TIME: 2 hours **PART A** **Maximum Marks: 75**

25x1=25

1. The minimum number of members in private company and public company are

(a) Three and Seven respectively

(b) Two and seven respectively

(c) Two and nine respectively

(d) None of the above

2. A public Company can commence business after receiving

(a) Certificate of Incorporation

(b) Certificate to commence business

(c) Both (a) and (b)

(d) None of the above

3. Contacts, which entered into, by agents or trustees on behalf of a prospective company

Before it has come into existence are called

(a) Provisional contracts
(b) Preliminary or pre-incorporation contracts
(c) Both (a) and (b)
(d) None of the above

4. A private company can be converted into a public company under

   (a) Conversion by default
   (b) Conversion by operation law
   (c) Conversion by choice
   (d) Any of the above

5. A company limited by shares

   (a) Has unlimited liability
   (b) Exists only in contemplation of law
   (c) Has a perpetual succession
   (d) Comes to an end on the death of all the members

6. An Act is said to be ultra virus a company when it is beyond the powers

   (a) Of the company
   (b) Of the directors
   (c) Of the directors but not the company
   (d) Conferred on the company by the Articles

7. The charter of a company is its

   (a) Articles of Association
   (b) Prospectus
   (c) Statement in lieu of Prospectus
   (d) Memorandum of Association

8. Which of the following is benefit from incorporation of a Company?

(a) Loss of privacy

(b) Possibilities of frauds

(c) Greater public accountability

(d) Independent legal entity

9. Which one of the following is not the content of the memorandum of association

(a) Name clause

(b) The registered office clause

(c) The objects clause

(d) The Board of Directors clause

10. A process undertaken prior to the filing of a prospectus by which a demand for the securities proposed to be issued by a company is elicited and the price and the terms of issue for such securities is assessed, by means of a notice, circular, advertisement or document, is called as

(a) Memorandum of information
(b) Information Memorandum
(c) A red-herring prospectus
(d) None of the above

11. A prospectus issued by the any financial institution or bank for one or more issues of the
securities or class of securities specified in that prospectus is called

(a) Deemed prospectus

(b) Shelf prospectus

(c) Red prospectus

(d) None of the above

12. The alteration of objects clause of memorandum of association can be made on which of the
following

(a) To carry on is business more economically and more efficiently

(b) To attain its main purpose by or improved means

(c) To enlarge or change the local areas of its operation

(d) Any of the above

13. The model form of articles contained in Table A deals with regulations for management of company limited

    (a) By shares

    (b) By guarantee

    (c) By shares and by guarantee

    (d) Section 25 companies

14. Shelf prospectus means a prospectus issued by any

    (a) Public financial institution

    (b) Public sector bank

    (c) Scheduled bank

    (d) All the above

15. If a company does not receive the minimum subscription, it should refund all moneys received form applicants for shares

    (a) Immediately

    (b) Within 60days of issued of prospectus

    (c) Within 90 days of issued of prospectus

    (d) Within 120 days of issue of prospectus

16. The underwriting commission must not exceed

    (a) 2 percent

    (b) 2 ½ Percent

    (c) 5 percent

    (d) 10 percent

17. As a consequence of separate corporate personality

(a) No shareholder has insurable interest in the property of the company

(b) When the majority shareholders die, the company comes to an end.

(c) The nationality of the company does not depend on the nationality of shareholder

18. A company is a juristic person with a perpetual succession

(a) As such it naturally dies

(b) its life depends on the life of its members

(c) it is related by a process of law and can be put an end to only by a process of law.

19. A company is deemed to be subsidiary of another company

(a) When the latter controls the composition of the Board of Directors of the former

(b) When the former controls composition of the Board of Directors of latter

(c) By chain of subsidiary companies

(d) All of the above

20. A certificate of incorporation can be disputed on the following grounds.

(a) When all the signatures are minors

(b) Where signatures to the memorandum are forged

(c) Where the Memorandum is signed by only 1 person for all the 7

(d) None of the above

21. The Articles of a company may be altered by

(a) the directors of the company

(b) any official of the company

(c) shareholders by passing an ordinary resolution

(d) shareholders by passing a special resolution

22. Ethics means

(a) good behaviour
(b) bad behaviour
(c) habbit
(d) obligation

23. Business ethics means

(a) to comply with the rules
(b) to comply with laws of land
(c) to follow the principles of morality
(d) All of the above

24 . Corporate Governance means

(a) Board accountability
(b) Corporate fairness
(c) Fairness to the stakeholders
(d) All of the above.

25. Corporate Governance has come to India

(a) because it is popular in USA
(b) because of failures of corporates and to have more accountability of Directors
(c) shareholders wanted it

(d) None of the above

PART B

Answer any eight questions from questions 1 to 10 and also question no 11 and 12 which are compulsory.

10x5 = 50

1. Explain the meaning of 'Private' and 'Public' company.

2. Explain "Preliminary contracts and Provisional contracts".

3. State the limitations relating to alteration of articles of association of a Company.

4. Examine the following and say whether they are True or False.

   i) Shareholders have insurable interest in the property of the company.

   ii) A company is a Citizen of India.

   iii) The term "body Corporate "connotes a wider meaning than the term "company".

   iv) For the debts of the company its creditors cannot sue the members of the company.

v) Approval of the Regional Director is required for Section 25 Companies.

5. "A promoter stands in a fiduciary position towards the company he promotes". Comment.

6. Explain the principle behind 'Corporate personality".

7. What are the documents that have to be filed at the time of registration of a company?

8. Explain the procedure for change of registered office from one state to another state.

9. Explain "Shelf Prospectus".

10. Who are liable for mis-statements in a prospectus? Explain the extent of Civil and criminal liability for such mis-statements.

11. What are the benefits of business ethics for business enterprise?

12. Explain "Corporate Governance ".Is transparency, one of the requirements of corporate governance?

PRIME ACADEMY

28TH SESSION PROGRESS TEST

SUGGESTED ANSWERS

LAW, ETHICS AND COMMUNICATION

Part A

1 (b)

2 (c)

3 (b)

4 (d)

5 (c)

6 (a)

7 (d)

8 (d)

9 (d)

10(b)

11(b)

12(d)

13(a)

14(d)

15(d)

16(c)

17(a)

18(c)

19(b)

20(d)

21(d)

22(a)

23(d)

24(d)

25(b)

Part B

1. Private company: A private company means a company which has a minimum paid up capital of one lakh rupees and by its articles -

   (a) Restricts the right to transfer its shares, if any:

   (b) Limits the number of its members to fifty not including –
      (i) Persons who are in the employment of the company: and

      (ii) Persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased: and

   (c) Prohibits any invitation to the public to subscribe for any shares in, or debentures of, the company:

(d) Prohibits any invitation or acceptance of deposits from persons other than its members, directors or relatives.

Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this definition, be treated as a single member {Section 3 (iii)}.

Every private company should have paid up capital of Rs. one lac.

Public Company:

A company, which is not a private company, will be a public company. Further a private company which a subsidiary of public company is also covered by definition of a public company. {Section 3 (1) (iv)} A public company should have a paid up capital of at least Rs.5 lakhs.

2. Provisional contracts: Provisional contracts refer to contracts entered into by a public company after its incorporation but before it is issued the certificate to commence business. According to Section 149 (4), any contract made by a company before the date at which it is entitled to commence business shall be provisional only, and shall not be binding on the company until that date, and on that date it shall be binding.
If the company is unable to obtain the certificate to commence business, the provisional contract automatically lapses; if it gets the certificate, the provisional

Contract becomes binding on the company. In the latter case, there is no need for ratification of the contract by the company; the contract becomes binding automatically.

3.

1. The alteration must not exceed the powers given by the Memorandum of association of the company or conflict with the provisions thereof.
2. It must not be inconsistent with any provisions of the Companies act or any other statute.
3. It must not be illegal.
4. It should not be a fraud on minority, or inflict a hardship on minority without any corresponding benefits to the company as a whole.
5. The alteration must not be inconsistent with an order of the court.
6. It may be regarded as having retrospective effect so long as it does not affect the things already done by the company.
7. If a public company is converted into a private company, the approval of the central Government is necessary.
8. An alteration that has the effect of increasing the liability of a member to contribute to the company is not binding on a present member unless he has agreed thereto in writing.
9. A reserve liability once created cannot be undone but may be cancelled on reduction of capital.
10. An assumption by the Board of directors of a company of any power to expel a member by amending its articles is illegal or void.

4.

i) Shareholders have insurable interest in the property of the company.
False. Shareholders do not have insurable interest in the property of the company.

ii) A company is a Citizen of India.
False. A company is not a citizen of India.

iii) The term “body Corporate “connotes a wider meaning than the term “company”.
True. The term “body Corporate “connotes a wider meaning than the term “company”.

iv) For the debts of the company its creditors cannot sue the members of the company.
True. For the debts of the company its creditors cannot sue the members of the company.

v) Approval of the Regional Director is required for Section 25 Companies.
True. Approval of the Regional Director is required for Section 25 Companies.

5. The word “promoter” is not defined in the Companies Act. The promoter of a company is a person who does the necessary preliminary work incidental to the formation of the company. It is a compendious term used for a person who undertakes, does and goes through all necessary and incidental preliminaries, keeping in view the objects, to bring into existence an incorporated company.

The promoter is neither an agent nor a trustee of the company under incorporation but certain fiduciary duties have been imposed on him under the Companies Act, 1956. He is not an agent because there is no principal and he is not a trustee as there is no trust in existence.

Fiduciary position of a promoter

1. A promoter must not make, either directly or indirectly, any profit at the expense of the company which is being promoted, unless the company itself has full knowledge of the facts and gives its consent.

2. He must, when once he has begun to act in the promotion of the company, give to the company the benefit of any negotiations or contracts into which he enters in respect of the company.

3. A promoter is entitled to sell his own property to the company provided he makes proper disclosure. This applies also to the property which he acquires during the promotion and which he resells to the company. If he fails to make disclosure the company may either (a) rescind the contract, or (b) compel the promoter to surrender the profit.

4. if he fails to make full disclosure of the profits he is making, the company may sue him for damages for damages for breach of the fiduciary duty.

5. He must not make an unfair or unreasonable use of his position, and must take care to avoid anything which has the appearance of undue influence or fraud.

6. A promoter has no right to get compensation from the company for his services in promoting the company unless there is a contract to the effect.

6. From the juristic point of view a company is a legal person distinct from its members (Salmon v. Saloman & Co. Ltd). This principle may be referred to as the veil of incorporation. The effect of this principle is that there is a fictional veil and not a wall between the company and its members. “Lifting the veil” means looking behind the company as a legal person, i.e. disregarding the corporate entity and paying regard instead to the realities behind the legal façade. Where the courts ignore the company and concern themselves directly with the members or managers, the corporate veil may be said to have been lifted only in corporate circumstances the courts are willing to lift the corporate veil and that too, when questions of control are involved rather than merely question of ownership.

The following are the cases where modern company law disregards the principle of corporate personality or the principle that the company is a legal entity distinct and separate from its shareholders or members.

(i) In the law relating trading with the enemy where the test of control is adopted.

(ii) In certain matters concerning the law of taxes, death duties and stamps particularly where question of the controlling interest is in issue.

(iii) Where companies form other companies as their subsidiaries to act as their agent. The application of the doctrine may operate in favour of such companies depending upon the acts of a particular case.

(iv) Where the benefit of limited liability of shareholders is destroyed and each shareholder’s liability has become unlimited. This happens under section 45 when the number of members of a public company or private company falls below 7 or 2 respectively, and business is carried on for more than six months. In such a situation, every person who is a member and is cognizant of the fact shall be severally liable for the payment of the whole debts of the company incurred during that time.

(v) (v)Under the law relating to exchange control.

(vi) Where the device of incorporation is adopted for some illegal or improper purpose, e.g., to defeat or circumvent law, to defraud creditors or to avoid legal obligations.

7. After getting the name approved, the following documents along with prescribed fees are to be filed with the registrar of Companies of the state in which the registered office of the company is to be situated.

1. Memorandum of association {section 33(1) (a)}

2. Articles of Association, if any {section 33(1) (b)}

3. The agreement, if any, which the company proposed to enter into with any individual for appointment as its Managing or Wholetime director or Manger {section 33(1) (c)}

4. A declaration that the requirements of the Act and the rules framed thereunder have been complied with. This requirement has to be signed by an advocate of the Supreme Court or High Court or an attorney or a pleader having the right to appear before High Court or a secretary or

a Chartered accountant in whole time practice in India who is engaged in the formation of a company or by a person named in the articles as a director {section 33 (2)}

5. In case of a public company having a share capital, where the articles name a person as director/directors, the list of the directors and their written consent in prescribed form to act as directors and take up qualification shares, if required by Articles of Association.
   Besides the aforesaid mentioned documents, the company must give a notice regarding the situation of its registered office under section 146 within 30 days of registration.

   If the Registrar is satisfied as to the compliance of statutory requirements, he retains and registers the Memorandum, the articles and other documents filed with him {section 33(3)}.

8. Where the place of registered office is to be altered from one state to another State the company may do so by passing special resolution and getting confirmation of the Company Law Board. The change can be permitted only if it is to achieve any of the purposes mentioned in section 17(1).

   The company is required to give an advertisement in the newspapers indicating the change proposed to be made and also a notice to be given to the State Government when it is proposed to transfer the registered office from one State to another State.

   The Company Law Board has the power either to confirm or refuse to confirm alteration relating to change of registered office.

9. Shelf prospectus means a prospectus issued by any financial institution or bank for one or more issues of the securities or class of securities specified in that prospectus. A company filing a shelf prospectus with the ROC shall not be required to file prospectus afresh at every stage of offer of securities by it within the period of validity.

   A Company filing a shelf prospectus shall be required to file an information memorandum within such time as may be prescribed by the central government prior to making of a second or subsequent offer of securities under the shelf prospectus on all material facts like new charges created , previous offer of securities and succeeding offer of securities etc.

   An information memorandum shall be issued to the public along with the shelf prospectus filed at the stages of first offer of securities and it shall be valid for one year from the date of opening the first issue under the prospectus.

10. Who are liable for mis-statements in a prospectus? Explain the extent of Civil and criminal liability for such mis-statements.
    The following are liable for mis-statements:

    a) The Company
    b) Every Director
    c) Every person whose name appeared in the prospectus as a proposed Director
    d) Every promoter
    e) Every person who has authorized the issue of prospectus
    f) Experts

1. Civil liability

Remedies against the Company:

The Company is liable for a mis-statement, if it is shown that a prospectus was issued by the Company or by someone with the authority of the Company.

Remedy

a) Rescind the contract:
b) Sue for damages for deceit under general law of contract.

Remedies against directors, promoters and expert

a) Compensation for the untrue statement.
b) Damages for omission.

2. Criminal liability

Where a prospectus contains any untrue statement, every person who authorizes, and the issue of prospectus is punishable with-

a)Imprisonment upto 2 years

b) Fine upto Rs.50000, or

c) Both.

11.

1. Attention to business ethics has substantially improved society.
2. Ethics programs help maintain a moral course in turbulent times.
3. Ethics programs cultivate strong teamwork and productivity.
4. Ethics support employee growth.
5. Ethics programs help ensure that policies are real.
6. Ethics programs help avoid criminal acts ‘of omission” and can lower fines.
7. Ethics programs help to manage values associated with quality management, strategic planning and diversity management.
8. Ethics promote a strong public image.

12. Corporate Governance can be defined as the formal system of accountability and control for ethical and socially responsible organizational decisions and use of resources.
Corporate governance arrangements are key detriments of an organization’s relationship with the world and encompass:

    1. The power given to management.
    2. Control over management’s use of power.
    3. Management’s accountability to stakeholders
    4. The formal and informal process by which stakeholders influence management decisions.

Yes. Transparency is one of the requirements of corporate governance.