PRIME ACADEMY
PROGRESS TEST – JANUARY 2008
PE II / PCC

Time Allowed : 2 Hours **ACCOUNTING – BATCH I** **Maximum Marks: 75**

PART A (25 X 1 =25)

Answer All Questions:

1. The amount paid at the time of entering the hire-purchase transaction for the goods purchased is known as

a. Cash price
b. Down payment
c. First instalment
d. Hire purchase price

2. Total interest on hire purchased goods is the difference between

a. Hire purchase price and cash price
b. Hire purchase price and down payment
c. Cash price and first instalment
d. None of the above

3. Depreciation on hire purchased asset is claimed by

a. hire vendor
b. hire purchaser
c. either the hire vendor or the hire purchaser as per the agreement between them
d. no depreciation is claimed till the last instalment is paid/received

4. Under instalment payment system, ownership of goods

a. is transferred at the time of payment of last instalment
b. is not transferred
c. is transferred at the time of signing the contract
d. none of the above

5. Goods may be invoiced to branch at

a. Cost
b. Selling price
c. wholesale price
d. all of the above

6. Under debtors method, opening balance of debtors is

a. debited to branch account
b. credited to branch account
c. debited to H.O. account
d. credited H.O. account

7. Cost of goods returned by branch will have the following effect

a. Goods sent to branch account will be debited
b. Goods sent to branch account will be debited
c. Branch stock account will be credited
d. (a) and (c)

8. Assets and liabilities of a non-integral foreign operation should be converted at

a. closing rate
b. average rate
c. opening rate
d. none of the above

9. All of the following are examples of monetary assets except :

a. Cash
b. Inventory
c. Receivables
d. Payables

10. If asset is carried at cost, cost and depreciation of tangible fixed assets is translated at

a. Average rate
b. Closing rate
c. Opening rate
d. Exchange rate at the date of purchase of asset

11. Incomes and expenses of a NFO is translated at

a. Average rate that approximates the actual exchange rates
b. Opening rate
c. Exchange rate at the date of transaction
d. Either (a) or (c)

12. As 11 classifies foreign branches are classified as

a. Autonomous branches and non-autonomous branches
b. Uncontrolled and fully controlled branches
c. Statutory and non-statutory branches
d. Integral and non-integral foreign operation

13. Selling commission is apportioned among departments in the proportion of

a. Average stock carried by each department
b. Number of units sold by each department
c. Sales of each department
d. None of the above

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

a. Rs. 3,000
b. Rs. 4,500
c. Rs. 1,500
d. None of the above

15. When every transaction is accounted at the head office
a. The branch undertakes only the sales
b. The branch is controlled by the head office
c. The branch undertakes independent contracts.
d. All of the above.

16. An independent branch sends
a. a record of all transactions.
b. a proforma invoice.
c. a final statement of accounts for incorporation.
d. a trial balance.

17. A branch is identified, usually by its
a Products produced.
b. geographical location
c. Profitability
d. All of the above.

18. When debtor's method of accounting for transactions is followed, the branch is treated as
a. Debtor.
b. creditor
c. asset
d. liabilty

19. At the year end, goods sent to branch is
a. shown as a deduction from purchases account.
b. Shown on the credit side of the general trading account.
c. is credited to purchases account.
d. is added with the sales of the head office.

20. When a debtor's method of accounting for transactions is followed, no entry is made for
a. Sales made at the head office.
b. bad debts incurred at the head office.
c. Sales made at the branch.
d. remittance from head office.

21. A branch adjustment account facilities to find out
a. The stock reserve.
b. the gross profit.
c. the expenses incurred.
d. All of the above.

22. The balance in branch stock account shows
a. the invoice price of closing stock.
b. amount due from debtors.
c. the stock reserve to be created
d. the stock lost in transfer.

23. After incorporation of Branch trial balance in head office, the branch account balance will be
a. debit balance, as is responsible for its assets
b. Credit balance as money is owed by the head office for branch expenses.
c. debit or credit balance as the case may be.
d. nil balance.

24. Accounting for goods in transit is done at
a. head office
b. Branch books.
c. Receipiant's books.
d. Sender's books.

25. As and when the installments become due …account is credited
a. H.P debtors
b. HP stock
c. HP adjustment
d. HP Sales

PART – B

Answer All Questions: **(50 Marks)**

1. Novel products Ltd. is a small company based in Bombay with a branch in Farland where the currency is in blanks. At the end of its financial year the following balances appeared in the two sets of books :

Heads of Account	Head office		Branch	
	Dr. (Rs)	Cr. (Rs)	Dr. (blanks)	Cr. (blanks)
Share capital (Re.1 shares)		10,000		
Profit and Loss Account		4,000		
Fixed assets (book value)	13,000		6,000	
Debtors	7,000		3,200	
Creditors		4,000		2,400
Cash at bank	7,600		800	
Wages and other expenses	11,000		7,200	
Depreciation for the year	1,000		900	
Purchases	64,200		27,000	
Sales		88,000		45,000
Opening stock (1 Jan.2007)	2,800		3,000	
Remittances from branch to Head Office		16,400	8,000	
Current accounts	15,800			8,700
	1,22,400	1,22,400	56,100	56,100

Stocks at 31st December 2007 were valued at Rs. 4,000 for the Head Office and 3,000 blanks for the branch. A remittance of 600 blanks was sent to Bombay on 31st December 2007 but was not included in the Head Office books until early January.

The rates of exchange at various times were:

When branch fixed assets were purchased	0.60 blanks to 1 Rupee
(It is the company's policy to value fixed assets on an historic rate basis)	
At 1st January 2007	0.50 blanks to 1 rupee
At 31st December 2007	0.40 blanks to 1 rupee
Average rate during 2007	0.45 blanks to 1 rupee

Of the Head Office wages and expenses, it is estimated that Rs. 800 was incurred in connection with the branch operations.

Required:

a. Convert branch Trial Balance into rupee currency
b. Prepare a Profit and Loss Account for the company for the year to 31st December 2007 and a Balance Sheet at that date.
c. Show the Farland Branch Current Account in the Head Office books, including the closing entries, and briefly explain what the balance represents.
d. Briefly justify your choice of the rate for translating the branch depreciation charge. **(20 marks)**

2. Messrs D, B and R carried on a business of Drapers and Tailors in Delhi; D was incharge of Department "A" dealing in cloth, B of department "B" for selling garments and R of Department "C" the tailoring section. It had been agreed that each of the three partners would receive 75% of the profits disclosed by the accounts of the department of which he was in charge and the balance of the profits would be shared in the proportion : D ½, B ¼ and R 1/4 . The following is the Trading and Profit and Loss Account of the firm for the six months ended March 31, 2007.

Dr. Trading and Profit and Loss Account Cr.

To Opening Stock :	Rs.	Rs.	By Sales :	Rs.	Rs.
Cloth (A)	37,890		cloth (A)	1,80,000	
Ready-made-garments(B)	24,000		Ready-made-garments(B)	1,30,000	
Tailoring-jobs©	20,000	81,890	Tailoring jobs (C)	90,000	4,00,000
To Purchase :			By Discount received		800
Cloth (A)	1,40,700		BY Closing Stock :		
Ready-made-garments(B)	80,600		By Cloth (A)	45,100	
Tailoring goods (c)	44,400	2,65,700	Ready-Made-Garments(B)	22,300	
To Salaries and Wages		48,000	Tailoring jobs (C)	21,600	89,000
To Advertising		2,400	[including Rs. 5,700 for goods		
To Rent		10,800	transferred from department (A)]		
To Discount allowed		1,200			
To Sundry Exp.		12000			
To Depreciation on					
Furniture		750			
Net profit		67,060			
		4,89,800			4,89,800

After consideration of the following, prepare Departmental Accounts and Profit and Loss Appropriation Account :

i. Cloth of the value of Rs. 10,700 and other goods of the value of Rs. 600 were transferred at selling price by Departments A and B respectively to Department C.
ii. Cloth and garments are sold in the show-room. Tailoring work is carried out in the workshop.
iii. The details of salaries and wages were as follows :

   a. General Office 50%, show-room 25% and 25% for workshop, which is for tailoring.
   b. Allocate General Office Expenses, in the proportion of 3:2:1 among the Departments A,B, C
   c. Distribute show-room expenses in the proportion of 1:2 between Departments A and B.

iv. The workshop rent is Rs. 1,000 per month. The rent of the General Office and Show room is to be divided equally between Departments A and B.
v. Depreciation charges are to be allocated equally amongst the three Departments
vi. All other expenses are to be allocated on the basis of turnover.
vii. Discounts received are to be credited to the three Departments as follows : A : Rs. 400; B : Rs. 250; c: Rs. 150
viii. The opening stock of Department C does not include any goods transferred from Department A.

(15 marks)

3. Krishna Agencies started business on 1st April, 2006. During the year ended 31st March, 2007, they sold under-mentioned durables under two schemes – Cash Price Scheme (CPS) and Hire-purchase Scheme (HPS).

Under the CPS they priced the goods at cost plus 25% and collected it on delivery.

Under the HPS the buyers were required to sign a Hire-Purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 instalments, the value being calculated at Cash Price plus 50%.

The following are the details available at the end of 31st March, 2007 with regard to the products:

Product	Nos. Purchased	Nos. sold under CPS	Nos. sold under HPS	Cost per unit Rs.	No. of Instalments Due during The year	No. of instalments received during the year
TV sets	90	20	60	16,000	1,080	1,000
Washing Machines	70	20	40	12,000	840	800

The following were the expenses during the year :

	Rs.
Rent	1,20,000
Salaries	1,44,000
Commission to Salesmen	12,000
Office Expenses	1,20,000

From the above information, you are required to prepare :

a. Hire-purchase Trading Account, and
b. Trading and Profit & Loss Account. **(15 marks)**

PRIME ACADEMY
PROGRESS TEST – JANUARY 2008
PCC / PE II
ACCOUNTS (BATCH – 1)

PART-A **(25 Marks)**

Answers

1. b. down payment
2. a. hire purchase price and cash price
3. b. hire purchaser
4. c. is transferred at the time of signing the contract.
5. d. all of the above.
6. a. debited to branch account.
7. d. branch stock account will be credited.
8. a. closing rate.
9. b. inventory.
10. d. exchange rate at the date of purchase of asset.
11. d. either (a) or (c)
12. d. integral and non-integral foreign operation.
13. c. sales of each department.
14. a. Rs. 3,000.
15. b. the branch is controlled by the head office.
16. c. a final statement of accounts for incorporation
17. b. geographical location
18. a. debtor.
19. c. credited to purchases account.
20. c. sales made at the branch
21. b. gross profit.
22. a. the invoice price of closing stock.
23. d. nil balance
24. c. receipiant's books
25. a. H.P.debtors account.

Part – B (50 Marks)

1. a) Farland Branch Converted Trial Balance as at 31.12.1993

Sl.No.	Heads of Account	L.F.	Blanks Dr. £	Blanks Cr £	Rate of Exchange	Rupees Dr. Rs.	Rupees Cr.. Rs.
	Fixed assets		6,000		0.60	10,000	
	Debtors		3,200		0.40	8,000	
	Creditors			2,400	0.40	–	6,000
	Cash at bank		800		0.40	2,000	
	Wages and other expenses		7,200		0.45	16,000	
	Depreciation for the year		900		0.60	1,500	
	Purchases		27,000		0.45	60,000	
	Sales			45,000	0.45		1,00,000
	Opening stock		3,000		0.50	6,000	
	Remittances from branch to H.O.(note 1)		8,000		Actual	17,900	
	Current Accounts			8,700	Actual	–	15,800
	Difference on exchange					400	
			56,100	56,100		1,21,800	1,21,800
	Closing stock/rate		3,000		0.40	7,500	

(b) Novel Products Limited

Dr. Trading and profit and Loss Account for the year ended 31st December,1993 Cr.

Particulars	H.O. (Rs.)	Br. (Rs.)	Total(Rs.)	Particulars	H.O.(Rs.)	Br.(Rs.)	Total(Rs.)
To opening Stock	2,800	6,000	8,800	By sales	88,000	1,00,000	1,88,000
To Purchases	64,200	60,000	1,24,200	By closing Stock	4,000	7,500	11,500
To Gross Profit c/d	25,000	41,500	66,500				
	92,000	1,07,500	1,99,500		92,000	1,07,500	1,99,500
To dep. On Fixed assets	1,000	1,500	2,500	By gross profit b/d	25,000	41,500	66,500
To wages and Other Expenses (note2)							
To difference On exchange	–	400	400				
To net profit	14,800	21,800	36,600				
	25,000	41,500	66,500		25,000	41,500	66,500

Balance Sheet of Novel products Ltd. As at 31st December, 1993

Liabilities	Rs.	Assets	Rs.
Share Capital		**Fixed assets** (Note 3)	23,000
10,000 shares of Re.1 each	10,000	**Current Assets** :	
Reserve and surplus		Stock (note 3)	11,500
Profit & Loss Account (note3)	40,600	Debtors(note3)	15,000
Current liabilities		Cash-in-transit(note3)	1,500
Creditors (note 3)	10,000	Cash at bank (note 3)	9,600
	60,600		60,600

(c) In the books of the Head Office Farland Branch Current Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.1993	To Balance b/d	15,800	1993	By remittances	16,400
31.12.1993	To net profit (before deducting H.O. expenses)	23,600	31.12.1993	BY cash in transit	1,500
			31.12.1993	By balance c/d	21,500
		39,400			39,400

This amount of Rs. 21,500 represents the net amount of the Head Office investment in the branch shown as follows Fixed assets Rs. 10,000 + Stock Rs. 7,500 + Debtors Rs. 8,000 + Cash at bank Rs. 2,000 = Rs. 27,500 less creditors Rs. 6,000 = Rs. 21,500 (net)

(d) The depreciation on fixed assets has been converted at the rate applicable to the assets to which they relate. Thus by converting depreciation at the same rate throughout the objective of the charge will be achieved i.e. to reduce the book value of assets to nil or scrap value by the expiration of their normal lives.

Working notes :

1. Remittances from branch should be taken at actual. As per H.O. Trial Balance remittances = Rs. 16,400.600 blanks sent by branch which is in-transit should be converted at closing rate of 0.40. The converted value will be 600/0.4 = Rs. 1,500. Therefore, total amount of remittance = Rs. 16,400 + Rs. 1,500 = Rs. 17,900.
2. Wages and other expenses of the Head Office = Rs. 11,000, out of which, Rs. 1,800 are to be charged to branch. Therefore, Head Office wages and other expenses after adjustment will be Rs. 11,000 – Rs. 1,800 = Rs. 9,200 and that of branch will be Rs. 16,000 + Rs. 1,800 = Rs. 17,800.
3. Total assets and liabilities of Head Office and Branch

Particulars	Fixed assets	Stock	Debtors	Cash at bank	Cash in transit	creditors	profit
Head Office	13,000	4,000	7,000	7,600	_	4,000	18,800
Branch	10,000	7,500	8,000	2,000	1,500	6,000	21,800
Total (Rs.)	23,000	11,500	15,000	9,600	1,500	10,000	40,600

2. **M/s D, B and R**

Departmental Trading and Profit & Loss Account for the six months ended 31-3-2006

Dr.	A (Rs)	B (Rs)	C (Rs)	Total (Rs)		A (Rs)	B (Rs)	C (Rs)	Total(Rs) Cr.
To opening stock	37,890	24,000	20,000	81,890	By sales	1,80,000	1,30,000	90,000	4,00,000
To purchases	1,40,700	80,600	44,400	2,65,700	By transfer	10,700	600	_	11,300
To transfer	_	_	11,300	11,300	By closing				
To wages	_	_	12,000	12,000	Stock	45,100	22,300	21,600	89,000
To gross profit c/d									
	2,35,800	1,52,900	1,11,600	5,00,300		2,35,800	1,52,900	1,11,600	5,00,300
To salaries & wages					By gross				
General office	12,000	8,000	4,000	24,000	Profit b/d	57,210	48,300	23,900	1,29,410
Showroom	4,000	8,000	_	12,000	By discounts				
Advertising	1,080	780	540	2,400	Received	400	250	150	800
To rent	2,400	2,400	6,000	10,800					
To discount allowed	540	390	270	1,200					
To sundry expenses	5,400	3,900	2,700	12,000					
To depreciation	250	250	250	750					
To net profit c/d	31,940	24,830	10,290	67,060					
	57,610	48,550	24,050	1,30,210		57,610	48,550	24,050	1,30,210

Note : Gross profit of Department A is 30% in Sales (including transfer to Department C)
There is some unrealized profit only on inter departmental stock. 30% of Rs. 5,700 is required as stock reserve. This will be debited to profit and Loss Appropriation Account.

Profit & Loss Appropriation Account

	Rs	Rs		Rs
To stock Reserve (see Note)		1,710	By Net Profit, from Profit and Loss A/c	67,060
To D : 75% of Profit of Deptt. A	23,955			
50% of Common Pool	7,527	31,482		
To B : 75% of Profit of Deptt. B	18,623			
25% of Common Pool	3,763	22,386		
To R : 75% of Profit of Deptt. C	7,718			
25% of Common Pool	3,764	11,482		
		67,060		67,060

3. **In the books of Krishna Agencies**

Hire Purchase Trading Account
For the year ended 31st March, 2006

	Rs.	Rs.		Rs.	Rs.
To Goods sold on H.P. A/c TVs (60 * Rs. 30,000)	18,00,000		By Bank A/c cash received TVs (1,000 * Rs. 1,000)	10,00,000	
washing machines (40 * Rs. 22,500)	9,00,000	27,00,000	Washing machines (800 * Rs. 750)	6,00,000	16,00,000
To H.P. Stock Reserve Rs. 9,90,000 * (87.5/187.5)		4,62,000	By instalment due A/c : TVs (80 * Rs. 1,000)	80,000	
To Profit & Loss A/c (H.P. profit transferred)		7,98,000	Washing machines (40 * Rs. 750)	30,000	1,10,000
			By goods sold on HP A/c (Cancellation of Loading) Rs. 27,00,000 * (87.7/187.5) By H.P Stock (W.N2)		12,60,000
		39,60,000			39,60,000

Trading and Profit and Loss Account
For the year ended 31st March, 2006

	Rs	Rs		Rs	Rs
To purchases: TVs (90 * Rs. 16,000)	14,40,000		By sales: TVs (20 * Rs. 20,000)	4,00,000	
Washing machines (70 * Rs. 12,000)	8,40,000	22,80,000	washing machines (20 * Rs. 15,000)	3,00,000	7,00,000
To Gross Profit c/d		1,40,000	By goods sold on H.P. A/c (27,00,000-12,60,000)		14,40,000
			By Shop Stock (W.N 3)		2,80,000
		24,20,000			24,20,000
To salaries		1,44,000	By Gross profit b/d		1,40,000
To rent		1,20,000	By H.P.Trading a/c (H.P. profit)		7,98,000
To commission		12,000			
To office expenses		1,20,000			
To net profit		5,42,000			
		9,38,000			9,38,000

Working notes :

1. Calculation of per unit cash price, H.P. price and instalment amount :

Product	Cost Rs.	Cash price Rs.(cost * 1.25)	H.P. price Rs. (cash price * 1.50)	Instalment amount Rs.(H.P. price/No. Of instalments)
Tv sets	16,000	20,000	30,000	1,000
Washing Machines	12,000	15,000	22,500	750

2. Calculation of H.P. Stock as on 31st March 2006 :

Product	Total No. of Instalments (Nos.)	Instalments due in 2005-2006(Nos.)	Instalments not due in 2005-2006(Nos.)	Amount Rs.
TV sets	1800	1,080	720	7,20,000
Washing Machines	1,200	840	360	2,70,000
				9,90,000

3. Calculation of Shop Stock as on 31st March, 2006 :

Product	Purchased (Nos.)	Sold(Nos.)	Balance(Nos.)	Amount (Rs.)
TV sets	90	80	10	1,60,000
Washing machines	70	60	10	1,20,000
				2,80,000

PRIME ACADEMY
PROGRESS TEST – JANUARY 2008
PE II / PCC – (Batch II)

Time Allowed : 2 Hours **ACCOUNTING – BATCH II** **Maximum Marks: 75**

PART A **(25 X 1 =25)**

Answer All Questions:

(A) Ram Ltd was incorporated with an authorized capital of Rs.10, 00,000 .It issued 20,000 of its Rs.10 share at a premium of Rs.5 each. There were 30,000 shares applied for the directors refunded the application money on 5,000 shares and prorata allotment was made on the remaining shareholders- the terms of payment being Rs.2 on application, Rs 8 on allotment (along with application money) and Rs 5 on first and final call. The allotment was made and money due on allotment was received.One share holder to whom 500 shares were allotted paid the call money together with allotment money .The call was made and money was duly received except for one shareholder who had applied for 500 shares. The directors decided to forfeit these shares and issue them at Rs.12 each fully paid.

1. What is the number of shares forfeited?
(a) 500 (b) 400 (c) 5000(d) 200

2. What is the balance in share premium account?
(a)1,00,000 (b) 1,08,000(c) 1,10,000(d) 1,00,800

3. What is the balance in shares forfeited account?
(a) 2000 (b) 4,000 (c) 5,200 (d) nil

4. What is the Bank balance?
(a)2,42,800 (b) 2,00,000 (c) 1,98,000 (d) 10,00,000

5. What is the balance in Capital reserve?
(a) 2000 (b) 4,000 (c) 5,200 (d) nil

6. What is the balance in share capital account?
(a)3,00,000 (b) 2,00,000 (c) 2,04,000 (d) 4,00,000.

(B) Shiva Ltd. issued 100,000 of its Rs.10 share at a premium of Rs.3 each. There were 150,000 shares applied for the directors refunded the application money on 50,000 shares and allotment was made on the remaining shareholders. The terms of payment being Rs.4on application, Rs 6 on allotment (along with premium) and Rs 3on first and final call. The allotment was made and money due on allotment was received except for one share holder who held 5000 shares. These shares were forfeited .2, 500 shares were reissued at Rs.9 per share.

7. What type of a company is Shiva limited.
(a) Private company (b) public company (c) statutory company (d) government company.

8. What is the balance in share premium account?
(a) 3, 00,000 (b) 2, 00,000 (c) 2, 85,000 (d) 2, 80,000

9. What is the balance in shares forfeited account?
(a) nil (b) 7,500 (c) 10,000 (d) 20,000

10. What is the Bank balance?
(a)13,00,000 (b) 10,22,500 (c) 12,55,000 (d) 12,77,500

11. What is the balance in Capital reserve?
(a) nil (b) 7,500 (c) 10,000 (d) 20,000

12. What is the balance in share capital account?
(a) 10, 00,000 (b) 9, 50,000 (c) 9, 75,000 (d) 13, 00,000.

13. When Shares were forfeited the share premium account was
(a) debited, b) credited c) no adjustment is required d) adjusted

14. When shares were forfeited share allotment account was credited with

(a) 30,000 (b) 15,000(c) 10,000 (d) nil

(C) Ram Ltd issued 30,000 debentures of Rs.100 each at a discount of 20%, payable on application, redeemable at a premium of 10%.

15. The balance in debenture account is
(a) 24, 00,000 (b) 30, 00,000 (c) 36, 00,000 (d) 30, 20,000

16. The money collected is
(a) 24, 00,000 (b) 30, 00,000 (c) 36, 00,000 (d) 30, 20,000

17. The discount on issue of debentures is
(a) 20,000 (b) 60,000 (c) 6, 00,000 (d) 9, 00,000

18. The balance in premium on redemption of debentures is
(a) Credit balance. (b) Debit balance (c) nil (d) transferred to capital reserve.

19. R and K are partners sharing profits in the ratio of 4 : 3 . S joins and the new ratio of R , K and S is 7 : 4 : 3 . What is the sacrificing ratio ?
(a) 1 : 2 (b) 2 : 1 (c) Equal (d) 4 : 3

20. X and Y are partners sharing profits in the ratio of 1 : 1 . They admit Z for 1/5th share who contributed Rs.25,000 for his share of goodwill . The total value of the goodwill of the firm will be
(a) Rs.25,000 (b) Rs.50,000 (c) Rs.1,00,000 (d) Rs.1,25,000

21. A and B are sharing profits in 4 : 3 ratio . They admit C as new partner with 1/3rd share . C brings goodwill in cash amounting to Rs.17,500 . A will be credited by
(a) 8,500 (b) 10,000 (c) 7,500 (d) 12,500

22. X and Y are partners sharing profits in the ratio of 3 : 1 . They admit Z as partner who pays Rs.4,000 as goodwill . The new profit ratio being 2 : 1 : 1 among X , Y and Z . The amount will be credited to
(a) X and Y Rs.3,000 and Rs.1,000 respectively
(b) X only
(c) Y only
(d) X and Y Rs.1,000 and Rs.3,000 respectively

23. X and Y are sharing profits and losses in the ratio of 5 : 4 . Z is admitted into the firm with 1/10th share in profits for which he brings Rs.10,000 as his capital Hence Y's share of adjusted capital will be ________
(a) Rs.30,000 Rs.40,000 (c) Rs.50,000 (d) Rs.60,000

24. A retiring partner continues to be liable for obligation incurred after his retirement
(a) If he starts a similar business elsewhere
(b) If he does not give public notice of his retirement
(c) If the unpaid amount is transferred to his Loan A/c
(d) Under no circumstances

25. The gaining ratio is calculated at the time of
(a) Admission of a partner (b) Retirement of a partner
(c) Dissolution of firm (d) All the above

Part – B (Marks 50)

Answer All Questions:

1. The following is the Balance Sheet as at 30th June, 2007of L,P,Q partners of a firm, sharing profits and losses equally :

Liabilities	Rs.	Rs	Assets	Rs.
Capital Accounts :			Plant and Machinery	42,000
L	20,000		Building	18,000
P	30,000		Motor car	3,200
Q	5,000	55,000	Sundry Debtors	23,000
			Stock-in-trade	21,000
Current Accounts :			Bank Balance	1,800
L	16,000		Current Account :	
P	18,000	34,000	Q	7,800
Trade creditors		17,600		
Provision for payments Of excise duty		8,400		
Creditors for Expenses		1,800		
		1,16,800		1,16,800

The firm accepts an offer from X Co. Ltd., to take over the following assets at values given opposite to each :

	Rs.
Plant and Machinery	30,000
Building	40,000
Stock-in-trade	18,000

The Company agrees to discharge 75% of the consideration due in equity shares of Rs. 10 each to be allotted at a premium of Re.1 per share. The balance of consideration will be retained by the company, at an interest of 15% per annum, to be paid six months after the transfer is put through.

The firm realizes its sundry debtors for Rs. 20,000; motor car is taken by partner L at an agreed value of Rs. 5,000 paid by him in cash; expenses of realization met by the firm came to Rs. 500; the liability to excise duty was finally discharged at Rs. 10,000.

Q's private assets are worth Rs. 15,000 and his individual liabilities and debts amount to Rs. 18,000.
Record the above transactions in the books of the firm and close the books-assuming that the transactions were all put through on 1st July, 2007 Show the ledger accounts only. Rule in Garner vs. Murray is to be applied.

(20 marks)

2. Amir, Garib and Faqir sharing profits in the proportion 3:2:1 decided to dissolve partnership on 31.12.2007 on which date their Balance Sheet was as under:

Balance Sheet

Liabilities	Rs.	Assets		Rs.
Creditors	32,400	Cash at Bank		3,000
Life Insurance Policy Fund	24,000	Sundry debtors	11,600	
Leasehold redemption fund	12,000	Less: provision for		
Bank loan	23,000	doubtful debts	1,000	10,600
Capital accounts :		Joint Life Insurance Policy		24,000
Amir	60,000	Investments		12,600
Garib	30,000	Stock		15,000
Faqir	20,000	Machinery		70,000
		Goodwill		41,200
		Lease Hold Building		25,000
	2,01,400			2,01,400

The life policy is surrendered for Rs. 21,000. The investments are taken over by Amir for Rs. 15,000. Garib agreed to discharge the Bank loan. The remaining assets are sold for Rs. 1,68,600. The expenses of realization amounted to Rs. 1,520. Prepare Realisation Account, Bank Account and Partner's Capital Accounts. **(15 Marks)**

3. Amod, Pramod and Vinod were partners sharing profits in the ratio of 5:3:2. On 31st Dec. 2007 their Balance Sheet stood as follows :

Liabilities		Amount Rs	Assets		Amount Rs
Creditors		31,400	Business Premises		52,000
Profit and Loss A/c		15,000	Motor vans		21,000
(net profit 2007)			Furniture		9,000
General Reserve		25,000	Plant		12,000
Capitals :			Stock		65,400
Amod	60,900		Debtors	40,000	
Pramod	40,000		Less : Provision	3,000	37,000
Vinod	30,800	1,31,700	Cash		6,700
		2,03,100			2,03,100

On this date Pramod retires and Amod and Vinod Agree to share future profits in the ratio of 3:2. Other terms were:

1. Firm's goodwill was valued at Rs. 36,000 and it was decided to adjust Pramod's share in goodwill without raising Goodwill Account.
2. Surrender value of Joint Life Policy was Rs. 15,000 and necessary adjustments are to be made in this respect without raising Joint Life Policy Account.
3. There is a claim for workmen's compensation and it was agreed to create a provision in this respect at Rs. 4,500.
4. Provision for bad debts is to be reduced to 2% of debtors.
5. Pramod will be paid Rs. 6,610 in cash and balance will be transferred to his Loan Account which will be paid in 3 equal instalments together with interest @15% p.a.
6. Amod's and Vinod's capital will be adjusted in their new profit sharing ratio through current accounts, prepare Capital Accounts and Balance Sheet. Also prepare Pramod's Loan Account **(15 Marks)**

PRIME ACADEMY
PROGRESS TEST – JANUARY 2008
PCC / PE II
ACCOUNTS BATCH – II
PART-A

(25 Marks)

Answers

1. (b) He had applied for 500 shares but was allotted only 400-25,000:20,000

2. (d) (20,000*5) + (400*2)

3. (d) nil. As all the shares have been reissued the balance in shares forfeited account is transferred to capital reserve account.

4. (a) (20,000*15)- (400*5) + (400*12)

5. (a) (2+3)*400

6. (b)When shares are forfeited, the shares are cancelled and sold.

7. (b) As the shares are issue to the public for subscription

8. (c) (1, 00,000-5,000)*3=2, 85,000.

9. (b)2500*(4-1)

10. (d)(95,000*13)+ (5,000*4) + (2,500*9)

11. (b)(2,500*4)- (2,500*1)

12. (c)Of the 5,000 shares forfeited only 2,500 shares were reissued.

13. (a) As the share premium money not received the profit not being realized in debited.

14. (a)Money due on allotment is inclusive of share premium money also.

15. (b) 30,000*100

16. (a) 30,000*80

17. (d) (30,000*20) + (30,000*10)

18. (a) credit balance

19. (a) 1:2

20 .(d) 1,25,000

21. (b) 10,000

22.(b) X only

23. (b) 40,000

24. (b)does not give public notice of his retirement

25. (b) retirement of a partner.

Part - B (50 Marks)

1. **Realisation Account**

Particulars	Rs.	Rs.	Particulars	Rs.
To Sundry Assets :			By X & Co. (purchase consideration)	88,000
Plant and Machinery		42,000	" Bank (Debtors)	20,000
Building		18,000	" Bank (Motor car)	5,000
Motor car		3,200	"Provision for Excise Duty	8,400
Sundry debtors		23,000	" Creditors for exp.	1,800
Stock-in-trade		21,000	" Sundry creditors	17,600
" Bank (sundry creditors)		17,600		
Bank(Exp.)		500		
" (Excise duty)		10,000		
" (Exp. Creditors)		1,800		
" Net profit for Capital A/cs :				
L	1233			
P	1233			
Q	1234	3,700		
		1,40,000		1,40,000

Bank Account

Particulars	Rs	Rs	Particulars	Rs
To Balance b/d		1,800	BY realization A/c :	
" Realisation A/c(Debtors)		20,000	Expenses	500
(car)		5,000	Excise duty	10,000
" Capital Accounts			Crs. For Exp.	1,800
L	1240		Trade creditors	17,600
P	1860	3,100		
		29,900		29,900

Capital Accounts

	Particulars	Rs	Rs	Rs	Particulars	Rs	Rs
	Rs						
	To Current Account (transfer)			7,800	By Balance b/d	20,000	30,000
	5,000						
	" Q's Capital	626	940		" Current A/c. transfer	16,000	18,000
	" Balance c/d	37,847	50,153		" Realisation A/c	1,233	1,233
	1,234						
626					" I's capital A/c		
940					"P's capital A/c		
					" cash	1,240	1,860
		38,473	51,093	7,800		38,473	51,093
7,800							

	Rs	Rs		Rs	Rs
To shares in X & Co. Ltd.	28,390	37,610	By balance b/d	37,847	50,153
" X & Co. Ltd. (Bal. Fig.)	9,457	12,543			
	37,847	50,153		37,847	50,153

Notes :

1. Debit balance of Q Rs. 1,566 has been transferred to L & P in the ratio of fixed capital
2. It has been assumed that L & P have brought cash for payment to creditors in fixed capital ratio.
3. Shares in X & Co., have been distributed in the ratio of the final balance standing to the credits of Partners' Capital Accounts.

2. **Realisation Account**

Particulars	Rs.	Assets	Rs.
To S. DebtorsA/c	11,600	By Provision for D/D	1,000
To Joint Life Policy A/c	24,000	By Creditors A/c	32,000
To Stock A/c	15,000	By Life Insurance Policy Fund	24,000
To Machinery A/c	70,000	By Leasehold Red. Fund	12,000
To Leasehold Building A/c	25,000	By Bank Loan A/c	23,000
To Goodwill	41,200	By Bank A/c	21,000
To Investments	12,600	By Amir's Capital A/c	15,000
To Garib's Capital A/c	23,000	By Bank A/c	1,68,600
To Bank A/c	32,400		
To Bank A/c	1,520		
To Partners Capital A/c (Profit):			
Amir 20,340			
Garib 13,560			
Faqir 6,780	40,680		
	2,97,000		2,97,000

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	3,000	By Realization A/c	32,400
To Realization A/c	21,000	By Realization A/c	1,520
To Realization A/c	1,68,600	By Amir's capital A/c	65,340
		By Garib's capital A/c	66,560
		By Faqir's capital A/c	26,780
	1,92,600		1,92,600

Partners' capital accounts

Dr.
Cr.

Particulars	Amir Rs.	Garib Rs.	Faqir Rs.	Particulars	Amir Rs.	Garib Rs.	Faqir Rs.
To Realization A/c	15,000	_	_	By Balance c/d	60,000	30,000	20,000
To Bank A/c	65,340	66,560	26,780	By Realization A/c	--	23,000	--
				By Realization A/c	20,340	13,560	6,780
	80,340	66,560	26,780		80,340	66,560	26,780

One partner taking over the business

When a firm is dissolved, it may be that one of the partner takes over the business. For the purpose of accounting treatment it does not make any difference. All the assets and liabilities are taken over by that partner and he will be debited by an amount of assets less liabilities taken over by him. If any asset is not taken over by the partner, it will be sold in the market and similarly, any liability not taken over by the partner will be paid in cash. The necessary cash required to pay off the other partners will be brought in by the partner who has taken-over the business.

3. **Partner's capital accounts**

Particulars Vinod	Amod Rs.	Pramod Rs.	Vinod Rs.	Particulars	Amod Rs.	Pramod Rs.	Rs.
To Revaluation A/c 30,800	1,150	690	460	By Balance b/d	60,900	40,000	
To Pramod's Capital A/c 3,000	3,600	_	7,200	By Profit & Loss A/c	7,500	4,500	
To Pramod's Capital A/c 5,000	1,500	_	3,000	By General Reserve	12,500	7,500	
To Balance c/d	74,650	66,610	28,140	By Amod's Capital A/c	--	3,600	----
				By Vinod's Capital A/c	--	7,200	-----
				By Amod's Capital A/c	---	1,500	-----

				By Vinod's Capital A/c	---	3,000	---
	80,900	67,300	38,800		80,900	67,300	
38,800							
To Cash	- ----	6,610	--	By Balance c/d	74,650	66,610	
28,140							
To Pramod's Loan	---	60,000	--	By Cash		--	
12.976							
To Cash	12,976	---	---				
To Balance c/d	61,674	---	41,116				
	74,650	66,610	41,116		74,650	66,610	
41,116							

Balance sheet

Liabilities		Rs.	Assets		Rs.
Creditors		31,400	Business premises		52,000
Provision for workmen Compensation		4,500	Motor vans		21,000
Pramod's loan A/c		60,000	Furniture		9,000
Capitals :			Plant		12,000
Amod	61,674		Stock		65,400
Pramod	41,116	1,02,790	Debtors	40,000	
			Less:provision For bad debts	800	39,200
			Cash		90
		1,98,690			1,98,690

Pramod's loan account

Date 1996	Particulars	Rs.	Date 1996	particulars	Rs.
Dec. 31	To Cash A/c	29,000	Jan. 1	By Pramod's	
60,000	(20,000+9,000)			Capital A/c	
Dec. 31	To Balance c/d	40,000	Dec. 31	By Interest A/c	
9,000					
		69,000			
69,000					

Retirement and death of a partner

1997			1997		
Dec. 31	To Cash(20,000+6,000)	26,000	Jan. 1	By Balance b/d	
40,000					
Dec. 31	To Balance c/d	20,000	Dec. 31	By Interest A/c	
6,000					
		46,000			
46,000					
1998			1998		
Dec. 31	To Cash A/c	23,000	Jan.1	By Balance b/d	
20,000					
			Dec. 31	By Interest A/c	
3,000					
		23,000			
23,000					

Working notes :

a. Calculation of Gaining Ratio :

Amod = 3/5 – 5/10 = 1/10
Vinod = 2/5-2/10 = 2/10

Hence gaining ratio = 1:2

b. Adjustment of Amod's and Vinod's capital :

Total capital of the firm after retirement of Pramod = 74,650 + 28,140 = 1,02,790
Capital in new profit sharing ratio :

Amod = 1,02,790 * 3/5 = 61,674

Pramod = 1,02,790 * 2/5 = 41,116

Difference : Amod = 61,674 – 74,650 = Rs. 12,976 (withdrawn)

Vinod = 41,116 – 28,140 = Rs. 12,976 (brought)

Revaluation account

Particulars	Rs.	Particulars	Rs.
To Provision for workmen 2,200	4,500	By Provision for bad debts	

Compensation fund 2,300		By Loss :	
		Amod 1,150	
		Pramod 690	
		Vinod 460	
	4,500		4,500

Cash account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	6,700	By Pramod's capital A/c	6,610
To Vinod's capital A/c	12,976	By Amod	12,976
		By Balance c/d	90
	19,676		19,676

PRIME ACADEMY
PROGRESS TEST – JANUARY 2008

Time Allowed : 2 Hours **<u>PE II / PCC - AUDITING</u>** **Maximum Marks: 75**

<u>PART A</u> **(25 Marks)**

<u>Answer All Questions:</u>

1. Which of the following statements relating to the competence of evidential matter is always true?
   (a) Evidence which an auditor gathers from outside an enterprise is reliable.
   (b)Accounting data developed in house under satisfactory internal control are more relevant than data developed under unsatisfactory internal control.
   (c) Oral representation of management is not valid evidence.
   (d) Evidence that auditors gather must be both valid and relevant to be considered competent
   (2 Marks)

2. What is an auditor required to state on completion of the audit?
   (a) A statement of fact in relation to whether the financial statements represent a 'true and fair' view.
   (b) A detailed analysis of items the auditor has become aware of that has aroused his or her interest.
   (c) A statement of opinion about the firm's compliance with all statutory requirements.
   (d) A statement of opinion about the truthfulness and fairness of the financial statements. **(2 Marks)**

3. During an audit engagement important data are compiled and included in audit working papers. The working papers are mainly considered to be:

(a) A client owned records of conclusions reached by the auditors who perform the audit.

(b) Evidence supporting the financial statement.

(c) Support for the auditors representations as to compliance with generally accepted auditing standards.

(d) A record to be used as a basis for next year's engagement. **(2 Marks)**

4. Audit working papers are used to record the results of the auditor's evidence gathering procedure. When preparing working papers, the auditor should remember that they should be:

(a) Kept in the client's premises so that the client can refer to them.

(b) The primary support for the financial statements being examined.

(c) Considered as a part of the client's accounting records that the auditors keep.

(d) Designed to meet the circumstances and the auditor's needs on each engagement.

(2 Marks)

5. Which of the following is not a primary purpose of audit working papers?

(a) Coordinating the examination.

(b) Assisting in preparing the audit report.

(c) Supporting the financial statement.

(d) Providing evidence of the audit work performed. **(2 Marks)**

6. Auditors sometimes use a comparison of ratios as audit evidence. For example, an unexplained decrease in the ratio of gross profit to sales may suggest which of the following possibilities?

(a) Unrecorded purchases.

(b) Unrecorded sales.

(c) Merchandise purchase being charged to selling and general expenses.

(d) Fictitious sales. **(2 Marks)**

7. Analytical procedures are:-

(a) Statistical tests of financial information designed to identify areas requiring intensive investigation.

(b) Analytical tests of financial information made by a computer.

(c) Substantive tests of financial information made by a study and comparison of relationships among data.

(d) Diagnostic tests of financial information that may not be classified as evidential matter.

(2 Marks)

8. Failure to detect material rupees errors in financial statements is risk that the auditor can try to avoid by.

(a) Performing substantive tests.

(b) Performing tests of control.

(c) Assessing control risk.

(d) Obtaining a client representation letter. **(2 Marks)**

9. To be competent, evidence must be both.

(a) Timely and substantial

(b) Reliable and documented.

(c) Valid and relevant.

(d) Useful and objective. **(2 Marks)**

10. Which of the following types of documentary evidence should the auditor consider the most reliable?

(a) A sales invoice issued and supported by a delivery receipt from an outside trucker.

(b)Confirmation of an account payable balance mailed by and returned directly to the auditor.

(c) A cheque issued by the company bearing payee's endorsement, which is included with the bank statements mailed directly to the auditor.

(d) A working paper prepared by the client's controller and reviewed by client's treasurer. **(2 Marks)**

11. What does 'Sufficient appropriate' audit evidence mean?

(a) The amount of audit evidence that can be obtained given the time budget on the task.

(b) Adequate evidence has been obtained in the auditor's professional judgment.

(c) All material errors have been detected.

(d) A qualified audit report does not need to be issued. **(2 Marks)**

12. Relying upon the work of an internal auditor by the external auditor basically stipulates that:-

(a) External auditor must rely upon an internal auditor if he is a practicing chartered accountant.

(b) If external auditor relies upon internal auditor's work and later on it was held that there was material misstatement in financial statements signed by external auditor, he can shift his responsibility to internal auditor.

(c) Sole responsibility of external auditor's report is of externally signed by auditor only and internal auditor is in way not responsible.

(d) Whereas the external auditor has sole responsibility for his report, however, work of the internal auditor may be useful to external auditor in his examination affirming of opinion. **(3 Marks)**

PART B **(50 Marks)**

Answer All Questions:

1. State briefly the duty of the auditor with regard to each of the following: **(2 x 5 = 10)**

(a) A sum of Rs. 10,00,000 is received from an Insurance company in respect of a claim for loss of goods in transit costing Rs. 8,00,000. The amount is credited to purchases account.

(b) A loss of Rs. 2,00,000 on account of embezzlement of cash was suffered by the company and it was debited to salary account.

2. Explain the procedure for development of overall audit plan with reference to AAS – 8 on Audit planning? **(8 Marks)**

3. Write short notes on **(2 x 4 = 8)**

(a) Compliance procedures

(b) Substantive procedures

4. Explain the importance of Bank reconciliation statement in the audit of receipts and payments? **(4 Marks)**

5. How will you verify/vouch the following:- **(5 x 4 = 20)**

(a) Research and development expenditure

(b) Preliminary expenses

(c) Receipt of capital subsidy

(d) Dividend and interest income

(e) Refund of General Insurance premium paid.

PRIME ACADEMY
PROGRESS TEST – JANUARY 2008
PCC / PE II
AUDITING

PART-A **(25 Marks)**

Answers

1. (b)
2. (d)
3. (c)
4. (d)
5. (c)
6. (b)
7. (c)
8. (a)
9. (b)
10. (b)
11. (b)
12. (d)

PART – B

(50 Marks)

1(a) According to AS-5, *"Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies"*, all items of income and expenses which are recognized in a period should be included in the determination of net profit or loss for the period.

The loss of goods in transit costing Rs.8,00,000 should be therefore, charged to profit and loss account of present financial year and insurance claim of Rs.10,00,000 should be credited to profit and loss account under an appropriate head. It should not have been credited to purchases account. If done so, the purchases would be overstated.

Insurance claim (excess) is profit from ordinary activities. AS-5 states that when items of income (and expense) within profit or loss from ordinary activities are of such size, nature or incidence, that their disclosure is relevant to explain the performance of the entity for the period, the nature and amount of such items should be disclosed separately. Thus, a separate disclosure of insurance claim received is necessary as per the requirements of AS-5 and it should not be credited to purchases account.

1 (b)AS-5, *Net Profit or Loss for the Period, Prior Period items and Changes in Accounting Policies"* requires that (income and) expenses within (profit or) loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Embezzlement of cash of Rs.2,00,000 is an ordinary business which as per the requirements of AS-5 should be disclosed separately in the profit and loss account. It should not be merged with salary.

2. Salient features of AAS-8 Audit Planning

Objective of Planning - To ensure

(i) Appropriate attention is devoted to important areas of audit;

(ii) Prompt identification of potential problems;

(iii) Expeditious completion of work;

(iv) Proper utilization of assistants; and

(v) Coordination of work done by auditors and experts.

Factors to be considered while planning - such as

(i) Complexity of audit;

(ii) Environment in which the entity operates;

(iii) Previous experience of the auditor with his client; and

(iv) Knowledge of the client's business.

Elements of planning - Audit Planning involves:

(i) Development of an overall plan for the expected scope and conduct of audit; and

(ii) Development of audit programme showing the nature, timing and extent of audit procedures.

Documentation

(i) The auditor should document his overall plan

(ii) The form and extent of the documentation will vary depending on the size and complexity of the audit.

(iii) A time budget, in which hours are budgeted for the various audit areas or procedures, can be effective planning tool.

Audit Programme

(i) The auditor should prepare a written audit programme containing the procedures that are needed to implement the audit plan.

(ii) The programme may also contain the audit objectives for each area and should have sufficient details to serve

- As a set of instructions to the assistants involved in the audit

- As a means to control the proper execution of the work

Reliance on internal control

(i) In preparing the audit programme, the auditor may rely on certain internal controls in determining the nature, timing and extent of required audit procedures.

(ii) He should also consider the timing of the procedures, the coordination of any assistance expected from the client, the availability of assistants and the involvement of other auditors or experts.

Timing of audit procedures

(i) Generally, there is flexibility for the auditor to decide on the timing of the performance of the audit procedures.

(ii) In some cases, however, the audit may have little discretion to decide the timing of procedure, for example, for observing physical stock taking by inventories by the client.

Review of the Plan

(i) Planning should be continuous throughout the engagement

(ii) Ideally, it commences at the conclusion of the previous year's audit.

(iii) Audit Plan along with audit programme should be modified during the course of audit. Such modifications are based on the auditor's preliminary review of the internal control system and the results of his compliance and substantive procedures.

3(a) Compliance Procedures : The compliance procedures are audit tests designed to obtain a reasonable assurance as to reliability of internal control system. They seek to test:

(i) that the internal control exists, i.e. existence

(ii) that the internal control is operating effectively, i.e. effectiveness; and

(iii) that the internal control has so operated throughout the period under audit i.e. continuity.

3(b) Substantive Procedures : The substantive procedures are audit fees designed to obtain evidence to verify balance of an account or a specific financial statement assertion. In other words, they test the validity and propriety of the accounting treatment of transactions. They can be classified as either test of details of transactions and balances or as analytical review procedures. They seek to test:

(i) E**xistence** that an asset or a liability exists at a given date

(ii) R**ights and obligations** that an asset is a right of the entity or is owned by the entity and a liability is an obligation of the entity at a given date.

(iii) O**ccurrence** that a transaction or event occurred and pertains to the entity during the relevant period.

(iv) C**ompleteness** that there are no unrecorded assets, liabilities or transactions.

(v) V**aluation** that asset or liability is recorded at an appropriate carrying value.

(vi) M**easurement** that a transaction is recorded at the proper amount and revenue or expense is allocated to the proper period and

(vii) **presentation and disclosure** an item is disclosed, classified and described in accordance with recognized accounting policies and practices and relevant statutory requirements, if any.

4. The main object of a bank reconciliation statement is to find out the transactions which have caused difference between the two balances, i.e. balance as per cashbook and the balance as per bank statement on particular day. It is prepared by the client's accountant and is, generally signed by internal auditor, if any. To vouch it the auditor should:

(i)**Note down the transactions which caused the differences** : The auditor should note down the items causing the difference between the cash book and pass book such as cheques issued but not yet presented for payment in the bank, direct payment by the bank, direct deposits in the bank, etc. This will help him in verifying cash at bank also.

(ii)**Ensure rectification entries, if any, have been passed**: The bank reconciliation statement helps in detection of errors of omission of transactions or wrong recording of transactions either by the bank or by the business enterprise. The auditor should ensure that records have been set right by rectification of errors.

(iii) **Examine adjustment entries**: The auditor should ensure that the adjustment entries, if necessary, for items such as bank charges and interest on overdraft have been passed.

(iv) **Examine transactions around the close of accounting year carefully**: In case bank reconciliation statement has revealed that large number of cheques have been issued or deposited in bank accounts around the close of accounting year, the auditor should inspect the bank statements of subsequent periods to ensure that entries relating to such cheques have not been reversed.

5(a) Research and Development Expenditure :

(i) Examine the payment in the bank statement with relevant documentary evidence, for example, expenditure incurred on material, during the development phase, with purchase invoices, salaries with salary register and so on.

(ii) Examine, whether such expenditure has been properly authorized. In case of a limited company, the auditor should examine board of director's resolution sanctioning such expenditure.

(iii) Ensure research and development expenditure has been made according to the objects of business of the entity.

(iv) Examine whether it has been properly accounted for and disclosed. In case it relates to xthe process of research and development of intangible assets generation then it should be accounted for as per the provisions of AS-26, i.e. research cost should be written off to the profit and loss account and development expenses should be capitalized if it meets the asset recognition criteria. If recognition criteria are not met, the same should be expensed as and when incurred.

5(b) Preliminary Expenses : Preliminary expenses are all expenses relating to the formation of an enterprise such as registration fees, cost of printing documents like memorandum of association and articles of association and other similar expenses. The audit procedures for verification of preliminary expenses are given below:

(i) The auditor should verify the amount of preliminary expenses shown in the balance sheet with reference to relevant supporting documents such as agreements, bills, receipts, etc. In case of public limited companies, the auditor should also compare this amount with that disclosed in the statutory report.

(ii) If preliminary expenses incurred by promoters have been reimbursed do them, the auditor should verify it with reference to the resolution of the board of directors and the power in the articles to make such reimbursement.

(iii) Examine whether, as per disclosure requirements of Schedule VI of the Companies Act, 1956, expenses on issue of shares and debentures are being shown separately and are not included in preliminary expenses.

(iv) Ascertain whether preliminary expenses are being shown in the balance sheet at their unamortized value. Generally, preliminary expenses are written off within five-six years of their incurrence. However many businesses amortize preliminary expenses on a straight line basis over a period of ten years, as per the provisions of the Income Tax Act, 1961.

5(c) Receipt of Capital Subsidy: The auditor may adopt the following audit procedures:

(i) Examine the cash book / bank statement for entries relating to the receipt of capital subsidy with reference to the correspondence with the government.

(ii) Examine the correspondence with the government along with all the documents for the grant of subsidy. Also examine the copy of application made for the claim of subsidy to ascertain the purpose and the scheme under which the subsidy was applied and received.

(iii) Note the conditions attached with receipt of grant.

(iv) Ensure compliance with requirements of AS-12 ‘Accounting for Government Grants’ i.e. whether it relates to specific amount or is in the form of promoter’s contribution and accordingly accounted for and disclosed.

5(d) Dividend and Interest income :

Examine the cash book: The auditor should examine the cash book for dividends and interest income received with reference to counterfoils of dividend / interest warrants or the forwarding note (received from the borrower along with the cheque/ draft relating to interest) , broker’s note in case of cum-divided / interest purchase of securities and such other relevant vouchers.

Examine the dividend / interest warrants or the forwarding note: (a) The auditor should examine these warrants with reference to the schedule of investments or schedule of loans and deposits prepared by the client and calculate the amount received which pertains to the period under audit and the amount outstanding. (b) He should trace a sample of dividend / interest received from cash book through dividend / interest warrants to investment certificates and their deposits into the bank.

Pay special attention to interest outstanding: The auditor should vouch interest outstanding with records of investments and loans and examine its proper disclosure in accounts.

Examine recording of dividends and interests at correct amounts: In certain cases, dividends and interests are received by the client after deduction of tax at source. The auditor should ensure that dividends and interests are recorded at gross amounts and tax deducted at source has been debited to Income Tax Account.

5(e) Refund of General Insurance Premium Paid : The auditor may adopt the following procedures to vouch refund of General Insurance premium paid :

(i) Examine the entry in the bank statement regarding the amount of refund received with reference to the covering letter to the cheque or advice of refund received from the insurance company

(ii) Ascertain the reasons for refund of insurance premium. The refund may be due to excess provisional payment of premium or cancellation of a policy.

(iii) Examine insurance policy bond to find out the amount of premium which was to be paid and check whether the excess premium paid has been fully refunded.

(iv) Examine correspondence between the insurance company and client.

PRIME ACADEMY
PROGRESS TEST – JANUARY 2008

Time Allowed : 2 Hours **PE II**

Maximum Marks: 75

BUSINESS AND CORPORATE LAWS

PART A **(25 X 1 =25)**

Answer All Questions:

1. The minimum number of members in public company is
(a) Seven
(b) Two
(c) Nine
(d) Unlimited

2. A public company can not commence business without
(a) Certificate of incorporation
(b) Certificate to commence business
(c) Opening of the bank account
(d) None of the above

3. A private company can have maximum paid up capital of
(a) Rs. One lakh
(b) Rs. Five lakhs
(c) Rs. Without limit
(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. Contracts, 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

6. A private limited company which is holding 50.5 % in public limited company is
(a) Deemed Public limited company
(b) Public limited company
(c) Subsidiary company
(d) None of the above.

7. A preliminary contract is
(a) contract made before its incorporation
(b) contracts made after incorporation but before commencement of business
(c) contracts made after the commencement of business
(d) none of the above

8. A Company limited by shares
(a) Has limited liability
(b) Exists only in contemplation of law
(c) Has a perpetual succession
(d) All of the above

9. Which of the following is not the content of Memorandum of association
(a) Situation clause

(b) Objects clause
(c) registered office clause
(d) Shareholders clause

10. An Articles of Association can be amended only by
(a) Special resolution
(b) Ordinary resolution
(c) Resolution with special notice
(d) None of the above

11. a corporate veil can be lifted
(a) the number of members fall below 2
(b) the device is used for illegal purpose
(c) law relating to taxes violated
(d) All of the above

12. A body corporate does not include
(a) corporation sole
(b) Nationalised Banks
(c) Statutory corporations
(d) Financial institutions

13. Company Law Board approval is required for change of registered office when
(a) Change within local limits of same town
(b) change within the state
(c) change from one state to another state
(d) None of the above

14. Under the Companies Act, 1956 a company can be classified as
(a) Companies limited by shares
(b) Companies limited by guarantee with or without share capital
(c) Unlimited companies with or without share capital
(d) All of the above

15. A promoter can be paid remuneration by way of :
(a) He may be paid lump sum by the company
(b) He may take a grant of some shares in the company
(c) The article may provide for a fixed sum to be paid to him.
(d) all of the above.

16 .A private company can be converted into a public company by the shareholders through
(a) Ordinary resolution
(b) Special resolution
(c) Ordinary resolution with central government approval
(d) None of the above

17. A company limited by shares can be
(a) Private limited company
(b) Public Limited company
(c) Non-profit company
(d) Holding Company

18. An act is said to be ultra vires 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

19. The charter of a company is its
(a) Share certificate
(b) Prospectus

(c) Articles of association
(d) Memorandum of Association

20. Which of the following is not the benefit from incorporation of a company?
(a) Transfer of shares
(b) Perpetual succession
(c) Non-taxability
(d) Independent legal entity

21. Which one of the following does not require special resolution for changing the memorandum of association
(a) The Name clause
(b) The registered office clause
(c) The objects clause
(d) The Authorized capital clause

22. The model form of articles contained in Table A deals with regulations for management of a company limited by
(a) By shares
(b) By guarantee
(c) By shares and guarantee
(d) Section 25 company

23. A Prospectus after filing with Registrar of Companies has to be issued within
(a) 30 days
(b) 60 days
(c) 90 days
(d) 180 days

24. The alteration of objects clause of a memorandum of association can be made on the following grounds
(a) to carry on its 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) All of the above.

25. Provisional contracts are applicable to
(a) Private Limited Company
(b) Public Limited company
(c) Section 25 company
(d) All of the above.

PART B (50 Marks)

ANSWER ANY FIVE QUESTIONS

1.What is the meaning of Lifting of corporate veil? When Corporate Veil can be lifted ?. **Marks 10**

2.(a) What are the Documents to be filed for incorporation of a company?
(b) Define a private company. Explain the procedure for conversion of a private company into a public company.
(2 X 5 = 10 Marks)

3.(a) What procedure shall a company follow to shift the registered office from one State to another State?
(b) Explain the "Doctrine of indoor management". What are the exceptions to the Doctrine. **(2 X 5 = 10 Marks)**

4.(a) Explain the procedure for amending the articles of association.

(b))Distinguish between Memorandum of Association and articles of Association..

(2 X 5 = 10 Marks)

5.(a) State the cases the prospectus is not required to be issued.

(b) Explain shelf prospectus and "Information Memorandum" and state the provisions of the Companies Act, 1956 with respect to these documents.

(2 X 5 = 10 Marks)

6.Write short notes on any two of the following:

a) Commencement of business
b) Subsidiary company
c) Doctrine of constructive notice
d) Statement in lieu of prospectus

(2 X 5 = 10 Marks)

PRIME ACADEMY
PROGRESS TEST – JANUARY 2008
PE II
BUSINESS AND CORPORATE LAWS

PART-A (25 Marks)

Answers

1 (a)

2 (b)

3 (a)

4 (d)

5 (b)

6 (d)

7 (a)

8 (a)

9 (d)

10 (a)

11 (d)

12 (a)

13 (c)

14 (d)

15 (d)

16 (b)

17 (b)

18 (a)

19 (d)

20 (c)

21 (d)

22 (a)

23 (c)

24 (d)

25 (d)

PART B (50 Marks)

1. From the juristic point of view a company is a legal person distinct from its members (Salmon v. Salomon & 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) 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.

2(a) 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.

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)}.

(b) 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.

Conversion of private company into public company

a. Conversion by choice: Section 44

The conversion is done by altering the articles of association in such a manner that they no longer contain the restrictions and provisions of section 3 (1) (iii) and other provisions inconsistent with the needs of a public company.

(i) If the number of members is below seven, steps should be taken to increase the number of members to a minimum of seven.

(ii) If the paid up capital is less than Rupees One lakh or such sum as may be prescribed steps must be taken to increase the same.
- If the number of Directors is only two, the number of Directors should be increased to atleast three.
- On approval of the alteration by the shareholders, through a special resolution in a general meeting –

Form 23 together with a certified copy of special resolution should be filed with the ROC.
A prospectus or Statement in lieu of prospectus has to be filed with ROC.

(iii) ROC will issue a fresh certificate of incorporation.

(iv) The change of name is to be noted in the Memorandum and Articles of Association, letterheads, bills, invoices, seals, etc.

(v) The company becomes a public company from the date of passing the special resolution. However, change in name by deleting the word ‘Private’ becomes effective only on the issue of a fresh certificate of incorporation by ROC.

3(a) 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.

(b) The outsiders dealing with a company are entitled o assume that as far as the internal proceedings of the company are concerned, everything has been regularly done. This is known as "Doctrine of indoor management" or the rule in Royal British Bank v. Turquand.

Exceptions to the doctrine of indoor management.

(i) Knowledge of Irregularity: The rule does not protect any person who has actual or constructive notice of the want of authority of the person acting on behalf of the company.

(ii)Acts void ab initio and forgery: The rule of indoor management is not allowed to be invoked in case of transactions which are void-ab-initio or illegal, e.g., forgery. A company can never be held bound by forgeries committed by its officers.

(iii)Negligence: Where a person dealing with a company could discover the irregularity if he had made proper inquiries he cannot claim the benefit of the rule of indoor management.

(iv)No knowledge of the articles: The rule is once again disallowed to be invoked in favour of a person who did not consult the memorandum and articles and thus did not rely on them.

(v)Acts outside the scope of authority: If an officer of a company enters into a contract with a third party and if the act of the officer is beyond the scope of his authority, the company is not bound for the acts of the officer. In Kredibank Cassel v. Schenkers Ltd, (1927) 1 K.B.. 826, a branch manager of a company drew and indorsed bills of exchange on behalf of the company. He had no authority from the company to do so. Held the company was not bound.

4(a) The Articles of association are the rules, regulations and bye-laws for the internal management of the affairs of a company. They are framed with the object of carrying out the aims and objects of the memorandum of association.
The articles are next in importance of the Memorandum of Association. In framing the Articles of Association care must be taken to see that regulations framed do not go beyond the powers of the company itself as contemplated by the memorandum. They should also not violate any of the requirements or provisions of the Companies Act.

A public limited company can have its own Articles of association or it can adopt Table A. Whereas, the following companies must have their own Articles (Section 26):
a. Unlimited Companies
b. Companies limited by guarantee
c. Private limited companies.

Procedure for alteration of articles of association:
A company may, by passing a special resolution, alter its Articles. The alteration is however subject to the condition that the altered articles must not conflict with the provisions of the Companies act and the

memorandum of Association. With the registrar within 30 days of the date of receipt of order of the approval.

Any alteration made in the Articles is as valid as if it were originally contained in the Articles. A company may adopt any new articles which could have been lawfully included in the original Articles. A copy of every special resolution altering the Articles must be filed with the registrar within 30 days of its passing and attached to every copy of the articles issued thereafter.

(b) 1.Memorandum of Association (MOA) is a primary document. Articles of Association (AOA) is a secondary document.

2.MA is the charter of the Company and defines the fundamental conditions and objects. AA contains the rules and regulations.

3.For alteration of MM in certain cases, NCLT approval is required. For alteration of AA, the approval of members is required.

4.Acts which are ultravires the Memorandum cannot be ratified even by all the members whereas acts ultravires the articles can be ratified by the members.

5.Every company must have its own memorandum. A public company limited by shares need not have articles of its own. In such a case Table A applies.

5(a) When prospectus is not required to be issued (section 56): the issue of prospectus is not necessary in the following cases:

(i) When shares or debentures are offered to existing holders of shares or debentures (sub-section 5).
(ii) When the issue relates to share or debentures uniform in all respects with shares or debentures previously issued and dealt in or quoted in a recognized stock exchange (Sub-section 5).
(iii)Where a person is bonafide invited to enter an underwriting agreement (sub-section 3).
(iv)Where shares are not offered to public (sub-section 3). However, private placement of shares out of promoters' quota or otherwise may require issue of prospectus as clarified by the Department of Company Affairs.

(b) 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.

Information Memorandum :

Information Memorandum means a process undertaken prior to the fiing 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 (Section 2 (19B) }.

The provisions of Section 60B, in this regard, may be noted as follows :

(1) A public company making an issue of securities may circulate information memorandum to the public prior to filing of prospectus.

(2) The company is required to file a prospectus prior to the opening of the subscription list and the offer as a red herring prospectus at least three days before opening of offer.

(3) The information memorandum and red herring prospectus shall carry same obligations as are applicable in the case of a prospectus. The issuer company negotiates with the party or underwriters to the issue regarding quantum of securities to be taken in the price range to be offered.

(4) Every variation between the information memorandum and the red-herring prospectus shall be highlighted by the issuing company and shall be individually intimated to the persons invited to subscribe to the issue of securities.

6. a) Commencement of Business:

A private company can commence its business as soon as it gets certificate of incorporation. But a company having a share capital which has issued a prospectus inviting the public to subscribe for its shares cannot commence any business or exercise borrowing power unless:

(a) The minimum number of shares which have to be paid for in cash has been subscribed and allotted.

(b) Every director has paid, in respect of shares for which he is hand to pay an amount equal to what is payable on shares offered to the public on application and allotments.

(c) No money is or may became liable to be paid to application of any shares or debentures offered for public subscription by reason of any failure to apply for or to obtain permission for the shares or debentures to be dealt in any recognized stock exchange : and

(d) A statutory declaration by the secretary or one of the directors that the aforesaid requirements have been complied with is filed with registrar.

However, if a company has not issued prospectus for public subscription it cannot commence any business or exercise borrowing powers unless it has issued a statement in lieu of prospectus and the conditions contained in paragraph (b) and (c) aforesaid have been complied with.

The Registrar of Companies, shall examine them and if satisfied, shall issue to the company a certificate to commence business.

b) Subsidiary company

A holding company is one which has control over another company and the company which control is exercised is called subsidiary company.

According to Section 4 (4) of the Companies Act, a company shall be deemed to be the holding company if the other is the subsidiary company. According to Section 4 (1) a company shall be deemed to be a subsidiary of another company in any of the following three cases:

(1) Company controlling the composition of Board of Directors

(2) Holding of majority of shares

(3) Subsidiary of Another Subsidiary

c) Doctrine of constructive notice

The doctrine of "Constructive notice" is based on the principle that a person dealing with a registered company shall be deemed to have a clear perception of the scope of the company's powers, and the acts which it may lawfully do. This is because of the fact that a company is required to register a number of documents (more importantly the memorandum and articles) with the registrar, and when that is carried out, the documents so filed/registered become "public documents" vide section 610 of the Companies Act, 1956. It is provided therein that a person may inspect documents kept by the registrar in accordance with the rules framed in that behalf. Such inspection may be carried out after payment of the prescribed fee. So also, a person may obtain copies/extracts of documents on payment of the prescribed fees. When each copy is certified to be a true copy by the registrar, the same would be admissible in evidence in all legal proceedings and would be as good as the original.

It is therefore presumed that those persons dealing with the company have read the documents and construed their meaning. Thus if a person deals in a manner inconsistent with the registered documents of the company or enters into a transaction which is outside the company's powers, he must face the consequences of such dealings. It is doctrine which operates against an outsider dealing with it by preventing him from alleging that he did not know that the constitution of the company rendered a particular act or a particular delegation of authority ultravires the company.

d) Statement in lieu of prospectus

A public company having a share capital may not invite public to subscribe for its shares if it arranges the required capital from sources other than inviting the general public to subscribe to its share capital or if it did issue a prospectus but the issue was a failure and it did not allot any shares and now it arranges the required finances from sources other than inviting the general public to its capital. In such a case the Companies Act requires that the company must file with the Registrar a statement in lieu of prospectus containing particulars set out in schedule III of the Act. The statement must be filed at least three days before the first allotment of either shares or debentures. It must be signed by every person named therein as a director or proposed director of the company or by his agent authorized in writing.

A private company is not required to file statement in lieu of prospectus.

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PRIME ACADEMY
PROGRESS TEST – JANUARY 2008

Time Allowed : 2 Hours **PCC** **Maximum Marks: 75**

LAW, ETHICS AND COMMUNICATIONS

PART A **(25 X 1 =25)**

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(d) None of the above

6. A private limited company which is holding 50.5 % in public limited company is
(a) Deemed Public limited company
(b) Public limited company
(c) Subsidiary company
(d) None of the above.

7. Which one of the following is not barrier to communication.
(a) Emotions
(b) Prejudice
(c) Goal conflicts
(d) Clarity

8. Semantic Barriers means
(a) communication connected with words
(b) communication connected with action
(c) communication connected with writing
(d) All of the above

9. Filtering in communication means
(a) Sender manipulates information
(b) Reciver manipulates information
(c) Employees manipulates information

(d) None of the above.

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(f)Ordinary resolution
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(a) Of the company
(b) Of the Directors
(c) Of the Directors but not the company
(d) Conferred on the company by the Articles

19.The charter of a company is its
(e) Share certificate
(f)Prospectus
(g) Articles of association
(h) Memorandum of Association

20.Which of the following is not the benefit from incorporation of a company?

(e) Transfer of shares
(f) Perpetual succession
(g) Non-taxability
(h) Independent legal entity

21. Which one of the following does not require special resolution for changing the memorandum of association
(a) The Name clause
(b) The registered office clause
(c) The objects clause
(d) The Authorized capital clause

22. The model form of articles contained in Table A deals with regulations for management of a company limited by
(a) By shares
(b) By guarantee
(c) By shares and guarantee
(d) Section 25 company

23. A process undertaken prior to filing of prospectus by which demand for the securities proposed to be issued by the company is elicited through
(a) Memorandum of Association
(b) Information memorandum
(c) Red prospectus
(d) None of the above

24. A prospectus issued by the 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

25. The alteration of objects clause of a memorandum of association can be made on which of the following grounds
(e) to carry on its business more economically and more efficiently
(f) to attain its main purpose by or improved means
(g) To enlarge or change the local areas of its population
(h) Any of the above.

PART B **(50 Marks)**

Question NO 1 is Compulsory. Answer any 4 Questions from the rest.

1. Write any five factors contributing to barrier to the communication. **10 Marks**

2.(a) What are the Documents to be filed for incorporation of a company?
(b) Define a private company. Explain the procedure for conversion of a private company into a public company.
(2 x 5 = 10 Marks)

3.(a) What procedure shall a company follow to shift the registered office from one State to another State?
(b) Explain the "Doctrine of indoor management". What are the exceptions to the Doctrine.
(2 x 5 = 10 Marks)

4 What is the meaning of Lifting of corporate veil? When Corporate Veil can be lifted? **10 Marks**

5 (a) State the cases the prospectus is not required to be issued.
(b) Explain shelf prospectus and "Information Memorandum" and state the provisions of the Companies Act, 1956 wit respect to these documents. **(2 x 5 = 10 Marks)**

6. Write short notes on any two of the following: **(2 x 5 = 10 Marks)**

e) Perception as barrier to communication
f) Subsidiary company
g) Doctrine of constructive notice
h) Statement in lieu of prospectus

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PRIME ACADEMY

PROGRESS TEST – JANUARY 2008

PCC / PE II

LAW ETHICS AND COMMUNICATIONS

PART-A **(25 Marks)**

Answers

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

PART B (50 Marks)

1. The purpose of communication is that each message should reach the receiver and the message should be understood in the same way as intended by the sender. When the misinterpreted it may lead to unnecessary confusion and noise.

The following are the barriers to the communication.

1. Lack of planning

This is one factor that is generally overlooker resulting in ill-planning. Long circumlocutive lecture, where a short presentation would suffice is a case of miscommunication.

2. Semantic Barriers

Semantics is the study of meaning. These are the problems arising from the careless use of expression or language in communication. Miscommunication arises when the reader or listener assigns a different meaning to word than what the speaker intended. So much depends on how the sender encodes the message.

3. Cultural Barriers

An organization should be especially careful regarding the cultural differences that often crop up as communication barriers in environment. The same words mean different things to different people around the world.

4. Socio-psychological barriers

Personal attitudes and opinions often interfere with communication. The relations with peers, seniors, juniors and environment influence the ability to communicate. Status consciousness is a serious communication barrier in an organization. It is this psychological distance from other which leads to miscommunication and restricts participation in decision making.

5. Filtering

Filtering means the sender of a message manipulates informationin such a way which is favorable to the receiver.

The lower level employees hold back some information. Thirty per cent of information gets lost in transmission. In the process of interpretation, simplication of a part of the message a large per cent of the remaining message gets lost or distorted.

2(a) 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.

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)}.

(b) 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.

Conversion of private company into public company

b. Conversion by choice: Section 44

The conversion is done by altering the articles of association in such a manner that they no longer contain the restrictions and provisions of section 3 (1) (iii) and other provisions inconsistent with the needs of a public company.

(i) If the number of members is below seven, steps should be taken to increase the number of members to a minimum of seven.

(ii) If the paid up capital is less than Rupees One lakh or such sum as may be prescribed steps must be taken to increase the same.

- If the number of Directors is only two, the number of Directors should be increased to atleast three.
- On approval of the alteration by the shareholders, through a special resolution in a general meeting –

❑ Form 23 together with a certified copy of special resolution should be filed with the ROC.

❑ A prospectus or Statement in lieu of prospectus has to be filed with ROC.

iii) ROC will issue a fresh certificate of incorporation.

iv) The change of name is to be noted in the Memorandum and Articles of Association, letterheads, bills, invoices, seals, etc.

v) The company becomes a public company from the date of passing the special resolution.

However, change in name by deleting the word ‘Private’ becomes effective only on the issue of a fresh certificate of incorporation by ROC.

3(a) 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.

(b) The outsiders dealing with a company are entitled o assume that as far as the internal proceedings of the company are concerned, everything has been regularly done. This is known as “Doctrine of indoor management” or the rule in Royal British Bank v. Turquand.

Exceptions to the doctrine of indoor management.

(i) Knowledge of Irregularity: The rule does not protect any person who has actual or constructive notice of the want of authority of the person acting on behalf of the company.

(ii)Acts void ab initio and forgery: The rule of indoor management is not allowed to be invoked in case of transactions which are void-ab-initio or illegal, e.g., forgery. A company can never be held bound by forgeries committed by its officers.

(iii)Negligence: Where a person dealing with a company could discover the irregularity if he had made proper inquiries he cannot claim the benefit of the rule of indoor management.

(iv)No knowledge of the articles: The rule is once again disallowed to be invoked in favour of a person who did not consult the memorandum and articles and thus did not rely on them.

(v) Acts outside the scope of authority: If an officer of a company enters into a contract with a third party and if the act of the officer is beyond the scope of his authority, the company is not bound for the acts of the officer. In Kredibank Cassel v. Schenkers Ltd, (1927) 1 K.B.. 826, a branch manager of a company drew and indorsed bills of exchange on behalf of the company. He had no authority from the company to do so. Held the company was not bound.

4 . From the juristic point of view a company is a legal person distinct from its members (Salmon v. Salomon & 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) 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.

5 (a) When prospectus is not required to be issued (section 56): the issue of prospectus is not necessary in the following cases:

(i) When shares or debentures are offered to existing holders of shares or debentures (sub-section 5).

(ii)When the issue relates to share or debentures uniform in all respects with shares or debentures previously issued and dealt in or quoted in a recognized stock exchange (Sub-section 5).

(iii) Where a person is bonafide invited to enter an underwriting agreement (sub-section 3).

(iv) Where shares are not offered to public (sub-section 3). However, private placement of shares out of promoters' quota or otherwise may require issue of prospectus as clarified by the Department of Company Affairs.

(b) 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.

Information Memorandum:

Information Memorandum means 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 (Section 2 (19B) }.

The provisions of Section 60B, in this regard, may be noted as follows :

(1) A public company making an issue of securities may circulate information memorandum to the public prior to filing of prospectus.

(2) The company is required to file a prospectus prior to the opening of the subscription list and the offer as a red herring prospectus at least three days before opening of offer.

(3) The information memorandum and red herring prospectus shall carry same obligations as are applicable in the case of a prospectus. The issuer company negotiates with the party or underwriters to the issue regarding quantum of securities to be taken in the price range to be offered.

(4) Every variation between the information memorandum and the red-herring prospectus shall be highlighted by the issuing company and shall be individually intimated to the persons invited to subscribe to the issue of securities.

6. a) Perception as barrier to communication

Perception is barrier to communication. No person sees things exactly the same way as another; each has a unique set of experiences, a unique perceptual "filter," through which he or she compares and interprets messages. Making up this filter is the unique blend of education, upbringing, and all of the life experiences of the perceiver. Even in the case of twins, the perceptual filter will vary from between them. When communicating, each receiver uses that filter to give meaning to or make sense out of the experience.

Understanding the dynamics that underlie perception is crucial to effective and successful communication. Because people make sense out of present messages based on past experiences, if those past experiences differ, the interpretations assigned may differ slightly or even radically depending on the situation.

b) Subsidiary company

A holding company is one which has control over another company and the company which control is exercised is called subsidiary company.

According to Section 4 (4) of the Companies Act, a company shall be deemed to be the holding company if the other is the subsidiary company. According to Section 4 (1) a company shall be deemed to be a subsidiary of another company in any of the following three cases:
(1) Company controlling the composition of Board of Directors
(2) Holding of majority of shares
(3) Subsidiary of Another Subsidiary

c) Doctrine of constructive notice

The doctrine of “Constructive notice” is based on the principle that a person dealing with a registered company shall be deemed to have a clear perception of the scope of the company’s powers, and the acts which it may lawfully do. This is because of the fact that a company is required to register a number of documents (more importantly the memorandum and articles) with the registrar, and when that is carried out, the documents so filed/registered become “public documents” vide section 610 of the Companies Act, 1956. It is provided therein that a person may inspect documents kept by the registrar in accordance with the rules framed in that behalf. Such inspection may be carried out after payment of the prescribed fee. So also, a person may obtain copies/extracts of documents on payment of the prescribed fees. When each copy is certified to be a true copy by the registrar, the same would be admissible in evidence in all legal proceedings and would be as good as the original.

It is therefore presumed that those persons dealing with the company have read the documents and construed their meaning. Thus if a person deals in a manner inconsistent with the registered documents of the company or enters into a transaction which is outside the company’s powers, he must face the consequences of such dealings. It is doctrine which operates against an outsider dealing with it by preventing him from alleging that he did not know that the constitution of the company rendered a particular act or a particular delegation of authority ultravires the company.

d) Statement in lieu of prospectus

A public company having a share capital may not invite public to subscribe for its shares if it arranges the required capital from sources other than inviting the general public to subscribe to its share capital or if it did issue a prospectus but the issue was a failure and it did not allot any shares and now it arranges the required finances from sources other than inviting the general public to its capital. In such a case the Companies Act requires that the company must file with the Registrar a statement in lieu of prospectus containing particulars set out in schedule III of the Act. The statement must be filed at least three days before the first allotment of either shares or debentures. It must be signed by every person named therein as a director or proposed director of the company or by his agent authorized in writing.

A private company is not required to file statement in lieu of prospectus.

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