PRIME ACADEMY

27th SESSION PROGRESS TEST

PCC - ADVANCED ACCOUNTANCY

TIME : 2 HOURS **TOTAL : 75 MARKS**

ANSWER ALL QUESTIONS

PART - A

1. A & Co., having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.2008, it was found that the goods dispatched by head office for Rs. 2,00,000 was received by the branch only to the extent of Rs. 1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?

2. Alpha Ltd., purchased a plant from Beeta Ltd., on hire purchase system on Jan 1, 2008 on the following terms and conditions. According to the terms of agreement, 20% was to be paid on signing of the contract. The balance was to be paid in four equal annual instalments of Rs. 60,000 each (inclusive of interest @ 10%) to be paid at the end of each year. The cash price of the plant was Rs. 3,00,000 you are required to calculate interest.

3. Dilip purchased a Car for a cash price of Rs. 2,56,000, which is sold on hire purchase system for Rs. 3,20,000. The amount is payable in four equal yearly installments of Rs. 80,000 each. The first payment is made at the end of the first year. Calculate the amount of interest to be charged every year.

4. A Ltd.purchased from F Ltd.a truck on hire purchase basis.-cost price Rs.1,00,000 payable in 5 equal half-yearly installments of Rs 25,000 each on 1-1-2006.Cash price Rs.1,10,000.Prepare the truck account assuming depreciation at 20% reducing balance method for the year ending 31-12-2007.

5. If goods are transferred from Department A to Department B at a price so as to include a profit of 50% on cost .What is the required journal entry if the closing stock in department B is Rs.9,000.

6. How would the following expenses be distributed among various departments
(a) Depreciation on assets
(b) Insurance charges on stock.

7. List the advantages of preparing separate Trading and P&L account for each department.

8. Compute the value of HP stock as on 31-3-2008

9. Compute the stock reserve on closing stock

The following are the details available at the end of March 2008 with regard to the products:
CPS:cost plus 25%
HPS:cash price plus 50% payable in 30 equal installments.

Products	No.Purchased	No.Sold CPS	No.Sold HPS	Cost per unit	No of installments due during the year	No of installments received during the year.
TV set	90	20	60	16,000	1,080	1000
HI-Fi system	70	20	40	12,000	840	800

10. List the points you would keep in mind while accounting for money received under a “after -sale service”.

PART-B

1. The Washington branch of XYZ Limited, Mumbai sent the following trial balances as on 31st December, 2007 :

Head office A/c	--	22,800
Sales	--	84,000
Debtors and Creditors	4,800	3,400
Machinery	24,000	--
Cash at bank	1,200	--
Stock, 1 January,2007	11,200	
Goods from H.O.	64,000	--
Expenses	5,000	--
	1,10,200	1,10,200

In the books of head office the Branch A/c stood as follows :

	Liabilities	Rs.		Assets	Rs.
To	Balance b/d	8,10,000	By	Cash	28,76,000
To	Goods sent to Branch	29,26,000	By	Balance c/d	8,60,000
		37,36,000			37,36,000

Goods are sent to the branch at cost plus 10% and the branch sell goods at Invoice price plus 25%.
Machinery were acquired on 31st January, 2002, when $1.00 = Rs. 40.
Rates of Exchange were

1st January,2007	$ 1.00 = Rs. 46
31st December, 2007	$ 1.00 = Rs. 48
Average	$ 1.00 = Rs. 47

Machinery is depreciated @ 10% and the Branch Manager is entitled to a commission of 5% on the profit of the branch.

You are required to
(i) Prepare the branch Trading and profit and loss A/c in dollars
(ii) Convert the Trial balance of branch into Indian currency and prepare Branch Trading &Profit and Loss A/c and the Branch A/c in the books of head office.

(18 marks)

2. Saravana Stores sells goods on hire purchase basis, the price being cost plus 33 1/3 % and supplies the following information for the year ended 31st December, 2007.

	1st Jan. 2007 Rs.	31st Dec. 2007 Rs.
Stock out on hire	10,00,000	11,50,000
Stock at shop	1,25,000	1,75,000
Instalment Due (customers still paying)	75,000	1,25,000
Cash received in instalments during the year		20,000

Prepare the necessary accounts under stock and debtors method, to find out the gross profit made by Saravana Stores for the year ended 31st December 2007.

(12 marks)

3. The following balances were extracted from the books of M/s Sai Ram Stores. Prepare the Departmental Trading and Profit and Loss Account for the year ended December 31, 2007, after adjusting the unrealized profit on stock, if any:

	Dept. X Rs.	Dept. Y Rs.
Opening stock	8,000	6,400
Purchases	1,04,000	1,45,600
Sales	1,60,000	2,40,000

Selling expenses incurred by both departments were Rs. 32,000 and you get the following information :

(a) Closing stock of Department X is Rs. 16,000 including goods from Department Y Rs.3,200. at cost to Department X.

(b) Closing stock of Department Y is Rs. 32,000 including goods from Department X for Rs.4,800 at cost to Department Y.

(c) Opening stock of Department X and Department Y include goods of the value of Rs. 1,600 and Rs. 2,400 taken from Department Y and Department X respectively, at cost to transferee department.

(d) The Gross Profit is uniform from year to year.

(10 marks)

4. Eicher Limited has its head office in Bombay and a branch at Delhi. Branch keeps a debtors ledger and banks all cash received to the credit of Head office account. Goods are invoiced to the branch at cost plus 33 1/3%.

On 1st January, 2007, the following balances appeared in the Head Office Ledger:

	Rs.
Branch Debtors Account	37,500
Branch Stock Account at invoice price	15,000
Branch Adjustment Account (Cr.)	3,750
Cash sales	18,750
Credit sales	3,75,000
Goods from Head Office at invoice price	4,50,000
Cash received from Branch debtors	3,60,000
Discount allowed to Branch debtors	9,225
Branch expenses paid by Head Office	93,650
Stock at the Branch on 31st Dec. 2007 at invoice price	60,000

You are required to prepare the necessary ledger accounts relating to branch transactions in the books of Head Office under the stock and debtors method.

(15 marks)

PRIME ACADEMY

27th SESSION PROGRESS TEST

PCC – ADVANCED ACCOUNTING

SUGGESTED ANSWERS

PART- A

1 In the books of the Branch

Goods-in-transit a/c Dr Rs..50,000
To Head office a/c Rs.. 50,000

2. Table showing calculation of interest

Date of payment &particulars	Total cash price Rs.	Installment paid (4+5) Rs.	Interest paid Rs.	Cash price paid Rs.
1	2	3	4	5
Jan 1, 1998	3,00,000			
Less:down Payment of 20%	60,000	60,000		60,000
Balance	2,40,000			
Dec.31, 1998 Less : 1st Instalment (10% of 2,40,000)	60,000	84,000	24,000	60,000
balance	1,80,000			
Dec. 31, 1999 Less : 2nd Instalment (10% of 1,80,000)	60,000	78,000	18,000	60,000
Balance	1,20,000			
Dec.31, 2000 Less : 3rd Instalment (10% of 1,20,000)	60,000	72,000	12,000	60,000
Balance	60,000			
Dec. 31, 2001 Less : 4th Instalment (10% of 60,000)	60,000	66,000	6,000	60,000
Balance	Nil	3,60,000	60,000	3,00,000

Calculation of Interest when rate of interest, total cash price and instalments are given

Under this situation also, the interest amount is calculated on total cash price at the given rate of interest from the date of signing the agreement to the date of payment of first instalment. Firstly, the total cash price is reduced by the cash paid towards down payment and interest amount is calculated on the outstanding balance of the total cash price. Then the cash price paid is calculated by deducing interest so calculated from the amount of instalment and the cash price paid is deducted from the total cash price. On the outstanding balance of the total cash price, interest is calculated for the following period and then the same process aforementioned is repeated. However, in this case, the interest for the last payment is not calculated and it is only the difference between the cash price remaining unpaid and the amount of last instalment paid. This procedure is followed because the instalment amount to be paid are of whole sum and not of fraction figures.

3. Interest = Hire purchase price – cash price

= Rs. 3,20,000 – Rs. 2,56,000

= Rs. 64,000

Table showing calculation of interest

Total hire Purchase Price Rs.	Particulars Rs.	instalments outstanding RS.	Ratio of outstanding instalments	Interest to be charged . RS.
3,20,000	At the end of 1st year	3,20,000	4	25,600
(4/10*64,000)				
At the end of 2nd year		2,40,000	3	19,200
(3,20,000-80,000)			(3/10*64,000)	
At the end of 3rd year		1,60,000	2	12,800
(2,40,000-80,000)			(2/10*64,000)	
At the end of 4th year		80,000	1	6,400
(1,60,000-80,000)			(1/10*64,000)	
Total		**3,20,000**	**10**	**64,000**

4. Trucks Account

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1-1-2007	By Balance b/d	88,000	31-12-2007	By Depreciatiom	17,600
			31-12-2007	By Balance c/d	70,400
		88,000			88,000

5. General P& L a/c Dr Rs..3000
To Stock Reserve a/c Rs. 3,000

6. Depreciation of Assets-Usuage of assets
Insurance charges on Assets-Value of stock held.

7 .(i)to enable comparison of the performance of one department with that of another.
(ii)To formulate policies to enable expansion of the business and to spot out deficiencies.
(iii)It helps in rewarding and penalizing employees.

8. HP stock=(720*1000)+ (360*750)=9,90,000

9. Stock Reserve
30,000-10,000 therefore for 7,20,000 stock reserve =2,40,000
22500-7500 therefore for 2,70,000,stock reserve =90,000
Total reserve to be created is Rs.3,30,000.

10. In the case of after service contract:

(i) The amount charged for free maintenance during the guarantee period should be segregated from the total price charged and credited to a separate maintenance account.

(i) Actual expenditure should be charged to this account.

(ii) The total charge of maintenance should be spread over the maintenance period on the basis that the sales have been made evenly throughout the period.

PART - B

1. Branch Trading and Profit and Loss account in US $

To Opening stock	11,200	By Sales	84,000
To goods received from head office	64,000	BY Closing Stock (bal. Fig)	8,000
To Gross profit	16,800		
	92,000		92000
To expenses	5000	BY Gross profit	16,800
To Depreciation	2,400		
To Managerial commission	470		
To net profit	8930		
	16,800		16,800

Converted Trial balance

Particulars	Dr($)	Cr($)	Rate	Dr(Rs)	Cr(Rs)
Head Office			Actual		8,60,000
Sales		84000	47		3948000
Debtors & creditors	4800	3400	48	230400	163200
Machinery	21600		40	864000	
Depreciation	2400		40	96000	
Cash at bank	1200		48	57600	
Stock	11200		46	515200	
Goods from Head office			Actual	2926000	
Expenses	5000		47	235000	
Manager Remuneration	470		47	22090	
Manager remuneration payable		470	48		22560
Loss on Exchange				47470	
				4993760	4993760

Branch Trading and Profit and loss account in Rs.

To Branch a/c	5,15,200	By Branch a/c	39,48,000
To goods sent to branch	29,26,000	By branch closing stock	3,84,000
To gross profit	8,90,800		
	43,32,000		43,32,000
To Branch a/c	4,00,560	By gross profit	8,90,800
To net profit	4,90,240		
	8,90,800		8,90,800

Branch Account

To Balance b/d	8,60,000	By Branch Trading a/c34,41,	34,41,200
To Branch Trading a/c	39,48,000	By Branch P& L a/c4,00,5	4,00,560
To Branch liabilities		By Branch _assets	
-Sundry creditors	1,63,200	-Sundry Debtors	2,30,400
-Mg.remuneration due	22,560	-Branch Machinery	8,64,000
		-Branch Cash	57,600
	49,93,760		49,93,760

2. Purchase Debtors A/c (at H.P.price)

Date 2000	Particulars	Rs.	Date 2000	Particulars	Rs.
Jan.1	To Balance b/c	75,000	Dec.31	By Cash A/c	20,000
Dec.31	To Hire Purchase Stock (Installments due during the year) -balancing figure	70,000	“	By Balance c/d	1,25,000
		1,45,000			1,45,000

Hire Purchase Stock A/c (at H.P. price).

Date 2000	Particulars	Rs.	Date 2000	Particulars	Rs.
Jan.1	To Balance b/d	10,00,000	Dec.31	By Hire Purchase Debtors A/c	70,000
Dec.31	To Goods sold on Hire purchase A/c -balancing figure	2,20,000	“	By Balance c/d	11,50,000
		12,20,000			12,20,000
2001 Jan.1	To balance b/d	11,50,000			

Goods sold on H.P. is found as	=	Rs. 2, 20,000
Profit = 1/3 on cost = ¼ on sales		
Goods sold on H.P (at H.P. Price)	=	Rs. 2, 20,000
Less: Loading on goods sold on H.P Rs. 2, 20,000 * ¼	=	Rs. 55,000
Cost of goods sold on H.P Rs. 2, 20,000 * ¾	=	Rs. 1, 65,000

Goods sold on Hire Purchase A/c

Date 2000	Particulars	Rs.	Date	Particulars	Rs.
Dec.31	To Hire Purchase Adjustment A/c - loading on goods sold on hire purchase (2,20,000 * ¼)	55,000	Dec.31	By Hire purchase stock A/c (H.P.Price)	2,20,000
“	To shop stock A/c (at cost)(2,20,000 * ¾)	1,65,000			
		2,20,000			2,20,000

Shop Stock A/c

Date 2000	Particulars	Rs.	Date 2000	Particulars	Rs.
Jan.1	To Balance b/d	1,25,000	Dec.31	By goods sold on hire purchase A/c	1,65,000
Dec.31	To purchase A/c -balancing figure	2,15,000	"	By balance c/d	1,75,000
		3,40,000			**3,40,000**

Hire purchase Adjustment A/c.

Date 2000	Particulars	Rs.	Date 2000	Particulars	Rs.
Dec.31	To stock reserve A/c -loading on closing stock (11,50,000 * ¼)	2,87,500	Dec.31	By stock reserve A/c -loading on opening stock (10,00,000 * ¼)	2,50,000
"	To Profit transferred to General P & L A/c Hire purchase	17,500	"	By goods sold on H.P A/c – loading on Goods sold on	55,000
		3,05,000			**3,05,000**

Stock reserve A/c

Dr. Date 2000	Particulars	Rs.	Date 2000	Particulars	Cr. Rs.
Dec.31	To Balance c/d	2,87,500	Dec.31	By H.P Adjustment A/c	2,87,500
		2,87,500			2,87,500
2000					
Dec.31	To H.P. Adjustment A/c	2,50,000	Dec.31	By balance b/d	2,50,000
		2,50,000			**2,50,000**

3. DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT
For the year ended 31st December 2000

Dr. Particulars	Dept.x Rs.	Dept. Y Rs.	Particulars	Dept. X Rs.	Cr. Dept. Y Rs.
To opening stock	8,000	6,400	By sales	1,60,000	2,40,000
To purchases	1,04,000	1,45,600	By closing stock	16,000	32,000
To Gross profit c/d	64,000	1,20,000			
	1,76,000	**2,72,000**		**1,76,000**	**2,72,000**

To selling expenses (sales ratio 2:3)	12,800	19,200	By gross profit b/d	64,000	1,20,000
			To Net Profit to be transferred		
To general P & L A/c	51,200	1,00,800			
	64,000	**1,20,000**		**64,000**	**1,20,000**

GENERAL PROFIT AND LOSS ACCOUNT
For the year ended ………

Dr.					Cr.
	Rs.	Rs.		Rs.	Rs.
To stock reserve on			By net profit		
Closing stock of			Dept. X	51,200	
Dept. X	1,600		Dept. Y	1,00,800	
Dept.y	1,920				1,52,000
		3,520	By stock reserve		
To net profit to be			on opening		
Transferred to			Stock of		
Balance sheet		1,50,240	Dept. X	800	
			Dept. Y	960	1,760
		1,53,760			1,53.760

Working notes:

2. Calculation of stock reserve on opening and closing stock of department X :

To calculate the stock reserve on opening and closing of department X, the rate of Gross Profit of Department Y is needed as the goods are from Dept. Y. Thus,

$$\text{Gross profit ratio of Dept.Y} = \frac{\text{Gross profit}}{\text{Sales}} * 100$$

$$= \frac{1,20,000}{2,40,000} * 100 = 50\%$$

Stock reserve on opening stock of Dept. X = Rs.1,600 * 50% = Rs.800
Stock reserve on closing stock of Dept. X = Rs. 3,200 * 50% = Rs. 1,600

3. Calculation of stock reserve on opening and closing stock of department Y:

To calculate the stock reserve on opening and closing of department Y, the rate of Gross Profit of Department X is needed as the goods are from Dept. X. Thus,

$$\text{Gross profit ratio of Dept.X} = \frac{\text{Gross profit}}{\text{Sales}} * 100$$

$$= \frac{64,000}{1,60,000} * 100 = 40\%$$

Stock reserve on opening stock of Dept. Y = Rs.2,400 * 40% = Rs.960
Stock reserve on closing stock of Dept. Y = Rs. 4,800 * 40% = Rs. 1,920

4.

Profit = 33 1/3% on cost
= 33 1/3/100 on cost = 1/3 on cost
or = 33 1/3/133 1/3 on sales = ¼ on sales

In the books of Eicher Ltd.
Delhi branch stock A/c (at invoice price)

Dr. **Cr.**

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
2000			**2000**		
Jan.1	To balance b/d	15,000	Dec.31	By cash A/c(cash sales)	18,750
Dec.31	To goods sent to Branch A/c (credit sales)	4,50,000	Dec.31	By branch debtors	3,75,000
			Dec.31	By branch adjustment A/c - shortage	11,250
Dec.31	By balance c/d	60,000			
		4,65,000			**4,65,000**
2001					
Jan. 1	To balance b/d	60,000			

Delhi Branch Expenses A/c

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2000			2000		
Dec.31	To branch Debtors A/c -discount allowed	9,225	Dec.31	By branch adjustment/c	1,02,975
Dec.31	To cash-Expenses Paid by H.O.	93,750			
		1,02,975			**1,02,975**

Delhi branch debtors A/c

Dr. **Cr.**

Date	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
2000					
Jan. 1	To balance b/d	37,500	Dec. 31	By cash A/c	3,60,000
Jan. 1	To branch stock (credit sales)	3,75,000	Dec. 31	By branch expenses-discount allowed	

Dec. 31	By balance c/d	43,275			
		4,12,500			**4,12,500**
2001 Jan. 1	to balance b/d	43,275			

Delhi branch adjustment A/c

Date **2000**	**Particulars**	**Rs.**	**Date**	**Particulars**	**Rs.**
Jan.1	To branch stock Reserve A/c -loading on closing stock (15,000 * ¼)	15,000	Dec.31	By branch stock reserve A/c -loading on opening stock (60,000 * ¼)	3,750
Dec.31	To branch stock A/c -loading on shortage	2,812	Dec. 31	By goods sent to branch A/c- loading on net goods sent to branch	1,12,500
Dec. 31	To gross profit c/d (4,50,000 * ¼)	98,438			
		1,16,250			**1,16,250**

		Rs.			**Rs.**
Dec.31	To branch expenses	1,02,975	Dec.31	By gross profit b/d	98,438
Dec. 31	To branch stock A/c	8,4381	Dec. 31	By net loss transferred to	
				- cost of shortage	
				General P & L A/c	12,975
		1,11,413			**1,11,413**

Working notes :

1. From the branch stock account, it is found that shortage is Rs. 11,250 at invoice price. To know the gross profit or loss and net profit or loss, the branch adjustment account is to be prepared. For that purpose, the shortage is to be split into the cost element and profit element (Loading). Profit element will be shown on the first division and Cost element will be shown on the second division of the branch adjustment account.

Invoice price	=	Cost Price + Profit
Cost price	=	Invoice price u profit
Shortage at Invoice Price	=	Rs. 11,250
Less : profit element (11,250 * ¼)	=	Rs. 2,812
Cost element in shortage		Rs. 8,438

PRIME ACADEMY
27TH SESSION
PROGRESS TEST
PCC – AUDITING & ASSURANCE
PART – A

Time : 2 Hours Total – 75 Marks

(25 X 1 = 25 Marks)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PART – B

(10 x 5 = 50 Marks)

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

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

3. Explain the methods of selecting an audit sample?

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

5. What are the responsibilities of a Joint Auditors?

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

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

8. What are the contents of permanent and current audit file?

9. What are the objectives of an audit? Whether the scope of audit can be restricted?

10. The audited financial statements of X limited show sales Rs 10 crores for the year 2006-2007. Mr. A's (auditor of X Ltd) article clerk stated that the sales are properly recorded. Subsequently, it was found that goods to the extent of Rs 850000 were sent on approval but included in the sales. Comment.

PRIME ACADEMY

27th SESSION - PROGRESS TEST

PCC – AUDITING & ASSURANCE

Suggested Answers

PART - A

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

PART - B

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   Specific misstatements identified by the auditor and

   The Auditor's best estimate of other misstatements which cannot be specifically identified.
   If the aggregate of the uncorrected misstatements reaches the materiality level or if the auditor determines that the aggregate of uncorrected misstatements causes the material misstatement of financial information, he should consider requesting the management to adjust the financial information or extending his audit procedures.

5. Normally, the joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report. A joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the report and should express his opinion in a separate report in case of disagreement.

6. The basic elements of management representation letter are as follows:-
   It should be addressed to the auditor
   It should be dated and signed by the designated authority
   The date of management letter should be the date as that of in the auditor's report or a date earlier to the auditors report.
   In certain circumstances, in respect of specific transactions, separate representation letter may also be obtained.

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

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

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

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

8. The contents are as follows:-

   Permanent Audit file:

   Legal and organizational structure of the entity like MOA and AOA in case of a company
   Extracts or copies of legal documents, agreements and minutes relevant to the audit.
   A record of study and evaluation of internal controls
   Analysis of significant ratios and trends
   Copies of the audited financial statements
   Notes regarding significant accounting policies
   Significant audit observations of the earlier years.

   Current Audit file:
   Correspondence relating to acceptance of annual reappointment
   Extracts of important matters in the minutes of the Board and General meeting relevant to the audit
   Copies of the management letters
   Analysis of transactions and balances
   Copies of communications with other auditors, experts and third parties.

9. The objective of an audit is to express an opinion as to the true and fair view of the financial statements. The user, should however not assume that this opinion is as assurance as to the future viability of the enterprise or the efficiency or the effectiveness with which the management has conducted the affairs of the enterprise. Further, the scope of audit is determined by the terms of engagement, appointing authority cannot restrict the scope of an audit in relation to those matters which prescribed by the relevant legislation and the pronouncements of ICAI.

10. The auditor remains responsible for the work delegated by him to his assistants, other auditors or experts. AAS – 1 states that the auditor will continue to be responsible for expression of his opinion on the financial information. Accordingly, Mr. A is not absolved of his responsibility on the financial statements. However, materiality of the sales figure should also be considered as regards his opinion on the overall financial statements as to whether they reflect a true and fair view.

PRIME ACADEMY
27th SESSION PROGRESS TEST
PCC – LAW, ETHICS AND COMMUNICATION

TIME : 2 HOURS **TOTAL : 75 MARKS**

PART A **(25x1=25 Marks)**

1. The Maximum number of members in private company is
(a) Seven
(b) Fifty
(c) Nine
(d) Unlimited

2. A public company can commence business with
(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. Ten 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)
(c) None of the above

6. A private limited company which is holding 50 % 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 corporate governance?
(a) Accountability of Board of directors
(b) Disclosure and transparency
(c) Non compliance of law
(d) Integrity and ethical behaviour

8. Ethical dilemma can be resolved by
a) Understand the problem clearly
(b) Look at the problem with neutral perspective
(c) Analyse the consequences
(d) All of the above

9. Key strategies in implementing CSR polices include
(a) Mission Vision and value statement
(b) Unambitious plans
(c) Passive participation by employees
(d) Non reporting to the stakeholders

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) All of the above

18. An act is said to be ultra vires when it is beyond the powers
(a) Of the Memorandum of association
(b) Of the Directors
(c) Of the Articles of Association
(d) All if the above

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 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) Green 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
(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 population
(d) Any of the above.

PART B (50 Marks)

Answer any Five Questions. Q.NO 1 is Compulsory.

1. Explain the major developments shaping the exponential growth of corporate social responsibilities

(10 Marks)

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

(5+5=10 Marks)

3. (a) What procedure shall a company follow to shift the registered office from one district to another district in one state ?
(b) Distinguish between memorandum of association and Articles of Association

(5+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 with respect to these documents.

(5+5=10 Marks)

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

a) Business Ethics
b) Corporate Governance
c) Shelf prospectus
d) Equity shares

(5+5=10 Marks)

PRIME ACADEMY
27th SESSION PROGRESS TEST
PCC – LAW, ETHICS AND COMMUNICATION
SUGGESTED ANSWERS

Part A

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

PART B

1.

The term corporate social responsibilities focuses on the idea that a business has social obligations above and beyond making a profit and follows from a decision by management to expand traditional governance arrangements to include to include accountability .

CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

In India increasing and economic stress is compelling the modern corporations to redefine their functions. Some of the observations made by the sachar committee (1978) was formed by Government of India to consider and report on the changes necessary in the form and in the structure of Companies Act and MRTP ACT.

Owing to the importance of CSR there is significant growth in the number external standards created for business by governmental, non-governmental advocacy and other type of organizations. (Caux round table, The global Sullivan Principles, Asian Pacific Economic Corporation (APEC) Business Code of Conduct).

These standards support, measure, assist in implementation and increase accountability for corporate performance on CSR subjects.

Benefits of corporate social responsibility

1. Improved financial performance
2. Reduced operating costs
3. Enhanced brand image and reputation
4. Increased sales and customer loyalty
5. Increased ability to attract and retain employees

2. (a)

After getting he name approved, the following documents along with the application and prescribed fees, are to be filed with the Registrar of Companies.

(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 whole time director or manager {section 33 (10 (c)}

(4) A declaration that the requirements of the act and the rules framed there under have been complied with.

(5) in case of a public company having 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 {section 266}

(6) Besides the above mentioned documents, the company must give a notice regarding the situation of its registered office under section 146 within 30 days of registration. (Form 18)

(7) Particulars of Directors (form 32)

(8) Power of Attorney

(b).

Public Company: As per Section 3 (1) (iv), a public company means a company which

(a) is not a private company

(b) has a minimum paid-up capital of five lakh rupees or such higher paid-up capital as may be prescribed.

(c) is a private company which is a subsidiary of a company which is not a private company.

3.

1. It should take the necessary decision in its board meeting and fix up the time, place and agenda for convening a general meeting to alter the articles of association and consequently the name by a special resolution as well as to alter by special resolution the ‘objects clause’ of the memorandum subject to the confirmation of the company Law Board under section 17 and by ordinary resolution the share capital clause under Section 94 if the alteration of share capital is involved in the process.

2. The company has to see that any change in the articles confirms to the provisions of the Companies Act.

3. It must issue notices for the general meeting in order to pass special resolution for the articles of association and memorandum of association.

4. It will have to convene the general meeting in order to pass there at the special resolutions.

5. It shall file either the prospectus in the form prescribed under schedule II or the statement in lieu of prospectus in the form prescribed under Schedule IV within 30 days of the passing of the special resolution mentioned as above.

6. It shall file with the concerned stock exchange 6 copies of such amendments on both articles and memorandum.

7. It shall file with the registrar the said special resolution within 30 days of their passing.

8. The company has to apply to the Registrar for the issue of a fresh certificate of incorporation for the changed name, namely, the existing name with the word "private" deleted. On issue of such certificate the name of the concerned company shall be final and complete.

4. (a)

The following procedures are followed for shifting of registered office from one district to district another district within the same state.

1. Board Resolution.
2. Shareholders special Resolution
3. FORM 23 to be filed within 30days along with a amended copy of MA and AA.
4. FORM 18.

   <u>Where 2 ROC offices in the state</u>

   RD (Regional Director) approval is required

(b)

1. Memorandum of Association (MA) is a primary document. Articles of Association (AA) are 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.

Lifting of corporate veil

From the juristic point of view a company is a legal person distinct from its members. This principle may be referred to as the veil of incorporation. The court in general considers themselves bound by this principle. The effect of this principle is that there is a fictional veil (and not a wall) between the company and its members. That is, the Company has a corporate personality, which is distinct from its members. The court has, therefore, lifted the veil in order to see that the corporate personality of a company is not blatantly used as a cloak for fraud or improper conduct.

The various cases in which the corporate veil has been lifted are as follows.

1. Protection of revenue.
2. Prevention of fraud or improper conduct.
3. Avoidance of welfare legislation.
4. Where the company is a sham.
5. Company avoiding legal obligation.
6. company acting as agent or trustee of shareholders.
7. Determination of the character of a company whether it is enemy.
8. Where the doctrine conflicts with public policy

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)

Companies Act, 1956 with respect to these documents.

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.

e) Business Ethics

Business ethics is the form of art of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment .Business ethics can be both a normative and a descriptive discipline.

Benefits of business ethics

An enterprise stands to gain on a lot of counts by adopting business ethics. The following are the most important of them.

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

9. Overall benefits of ethics
10. Last and most – formal attention to ethics in the workplace is the right thing to do.

b) Corporate Governance

Corporate governance is defined “ as the formal system of accountability and control for ethical and socially responsible organizational decisions and use of resources Corporate governance arrangements play a crucial role in determining the organization’s relationship with the world as its scope includes

1. The power given to management and control on its usage
2. Management accountability to stakeholders
3. Processes by which stakeholders influence management decisions

Corporate governance – major factors

a) Accountability of board of directors
b) Financial disclosures and controls
c) Stock options

c) Shelf prospectus

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 or securities under the shelf prospectus on all material facts relating to the following.

a) New Charges created
b) Changes in the financial position as have secured after the first offer of securities
c) Previous offer of securities
d) Succeeding offer of securities.

An information memorandum shall be filed with shelf prospectus at the stage of the first offer of securities and it is valid for one year from the date of opening the first issue under that prospectus.

d) Equity shares

Equity share means the share capital which does not satisfy the definition of preference share capital. Equity shareholders are entitled to dividend when recommended by the Board of directors. Under Section 86, equity shares may be issued with differential rights.

As to voting, dividend or otherwise. Equity shareholders are entitled to voting rights in proportion to the paid up equity capital. The amount paid on the equity shares cannot be returned to the shareholders unless the company is winding up its business.