PRIME ACADEMY

29 th SESSION PROGRESS TEST

PCC/ IPCC Advanced Accounting

No of pages: 6 **Total Marks: 75**

Time Allowed: 2Hrs

PART-A **25 x 1=25**

1. In case of hire purchase agreement, the ownership is transferred after

   a. The sale consideration is received.

   b. The last installment is paid.

   c. The contract is entered.

   d. The asset is put to use.

2. Hire purchase price represents

   a. Hire purchase price+ interest

   b. Cost price + interest

   c. Cash price +interest

   d. Cost price+ cash price

3. Down payment represents

   a. the hire purchase price less interest

   b. cash price excluding interest

   c. the initial contract payment.

   d. the first installment.

4. On default in repayment of an installment

   a. the goods shall be returned

   b. the goods can be repossessed.

   c. the goods can be rejected.

d. the goods can be confiscated.

5. The power to terminate the contract lies with

a. The Hire Vendor

b. The hire purchaser

c. Both parties to the contract

d. The third party.

6. The relationship between hire purchaser and hire vendor would be that of

a. bailee and a bailor

b. purchaser and seller

c. agent and principal.

d. contractor and contractee.

7. The hire purchaser has no right to

a. use the goods

b. purchase the goods

c. repair the goods

d. sell the goods.

8. Any loss in the value of goods will be borne by the

a. hire vendor

b. hire purchaser

c. both parties in the ratio agreed upon.

d. both parties equally.

9. In the books of the hire purchaser, when machinery is purchased on hire purchase, the machinery account is debited with

a. cash price.

b. cost price.

c. hire purchase price.

d. realizable value.

10. in the books of the hire purchaser, hire vendor is credited with

a. cash price.

b. cost price.

c. hire purchase price.

d. realizable value.

11. Depreciation is charged in the books of the

a. hire vendor

b. hire purchaser

c. both parties in the ratio agreed upon.

d. both parties equally.

12. Profit on sale of repossessed goods belongs to the

a. hire vendor

b. hire purchaser

c. two parties in the ratio agreed upon.

d. two parties equally.

13. Books of accounts are not maintained by

a. Foreign branches

b. Independant branches

c. Dependant branches

d. Branches selling only for cash.

14. When the branch has no stock and no cash balance, its balance would be

a. nil

b. profit or loss

c. sales

d. expenses incurred.

15. When cash is sent to the branch, to meet the expenses at the branch, credit is given to

a. branch account

b. goods sent to branch account

c. branch expenses account

d. cash account

16. A stock reserve is created for goods at the branch at the year end equal to

a. Cash price-cost price

b. Selling price-invoice price

c. Invoice price-cost price

d. Selling price-cost price

17.Balance in branch stock account represents

a. Goods sent to branch

b. Goods available for sale at the branch

c. Goods sold by the branch

d. Goods on which installment is not yet due.

18. Branch adjustment account is opened to reveal the ……at the branch

a. balance of debt adjusted

b. balance of credit adjusted

c. value of goods sent and received

d. profit or loss

19 The opening balance in stock reserve account is transferred to

a. Branch stock account

b. Branch account

c. Branch profit or loss account

d. Branch adjustment account.

20.In consolidated balance sheet, branch account

a. is found as an asset

b. is found as a liability

c. is found as an asset or liability depending on the status

d. is not found

21. When goods are transferred from one branch to another it is treated as

a. goods returned to the head office

b. Goods redirected to branch

c. no entry is required

d. Goods sent from one branch to another.

22. When opening stock is valued at net realizable value by the foreign branch

a. opening rate is used

b. average rate is used

c. closing rate is used

d. Transaction rate is used.

23. When goods are in transit from head office to branch, adjustment is made in

a. head office books

b. branch books

c. either of the books

d. head office account

24. The reporting currency is the currency in which the….. prepared

a. books of accounts are

b. tr.ial balance is

c. financial statements are

d. Cash flow statement is

25.The profit from the branch is transferred to

a. Head office account

b. Branch account

c. Branch adjustment account

d. General profit and loss account.

PART B **50 Marks**

1. Karpagam Ltd.purchased three Autos costing Rs.50,000 each from Bajaj Auto Ltd. as on 1st January 2006 on hire purchase system .The terms of the agreement were payments on delivery Rs.12,500 for each auto and balance of the principal amount by 3 equal installments plus interest at 15% per annum to be paid at the end of each year.Karpagam Ltd., writes off 25% depreciation each year on diminishing balance method.

   Karpagam Limited paid the installment due on 31st December 2006 and December 2007 but could not pay the final installment. Bajaj Auto limited repossessed two autos adjusting values against the amount due. The repossession was done on 1st Jan2009 on basis of 40% depreciation on the diminishing balance method. Bajaj Ltd.spent Rs.4, 800 on getting the repossessed two autos thoroughly overhauled and sold them for Rs. 30,400.

   You are required to prepare ledger accounts in the books of both parties and show how the balances will appear in the balance Sheet of Karpagam Ltd.

   (20 marks)

2. 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 1 st January, 2008, 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	93,750
Stock at the branch on 31 st December 2008at invoice price	60,000

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

(15 marks)

3. On 31st march 2009 the following balances appeared in the books of the Kolkata branch of a Singaporean firm having its head office in Singapore.

	Dr (Rs)	Cr(Rs)
Stock on 1-4-2008	12,600	
Purchases and Sales	75,000	1,12,500
Debtors and Creditors	39,000	26,000
Bills of Exchange	10,400	9,100
Wages and Salaries	4,800	
Rent, rates and taxes	3,600	
Sundry charges	1,500	
Furniture and Fixtures	4,910	
Bank Balance	28,990	
Singapore head office		33,200
	1,80,800	1,80,800

Stock on 31-3-2009 was Rs.32, 500. Kolkata branch account in the books of Singapore office showed a debit balance of $ 760 on 31-3-2009.Fixtures and furniture were acquired from a remittance received from London of $117 which exactly covered the cost of such fixtures etc.,

The rates of exchange may be taken at 31-3-2008 was Rs.42 per $. 31-3-2009 Rs 39 per $.

The average rate for the year may be taken at Rs36 per $.

Prepare the trading and profit and loss account and balance sheet relating to Kolkata branch in the Singapore branch.

(15 marks)

SUGGESTED ANSWERS

PART – A

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

1. **PART B**

In the books of Karpagam Ltd. (Hire purchaser)

AUTO Account

Date	Particulars	Amount RS	Date	Particulars	Amount RS
1-1-2006	To M/s Bajaj Auto Ltd.	1,50,000	31-12-06	By Depreciation	37,500
				By Balance c/d	1,12,500
		1,50,000			1,50,000
1-1-2007	To Balance b/d	1,12,500	31-12-07	By depreciation	28,125
				By Balance c/d	84,375
		1,12,500			1,12,500
1-1-2008	To balance b/d	84,375	31-12-08	By Depreciation	21094
				By Balance c/d	63,281
		84,375			84,375
1-1-2009	To Balance b/d	63,281	1-1-09	By Bajaj Auto Ltd.	21600
				By profit and loss a/c	20,587
				By Balance c/d	21,094
		63,281			63,281

M/s Bajaj Ltd Account

Date	Particulars	Amount RS	Date	Particulars	Amount RS
1-1-2006	To Bank (down payment)	37,500	1-1-2006	By Auto a/c	1,50,000
31-12-2006	To bank	54,375,	31-12-2006	By interest	16,875
	To balance c/d	75,000			
		1,66,875			1,66,875
31-12-2007	To bank	48,750	1-1-2007	By Balance b/d	75,000
	To balance c/d	37,500	31-12-2007	By interest	11,250
		86,250			86,250
31-12-2008	To balance c/d	43,125	1-1-2008	By Balance b/d	37,500
			31-12-2008	By interest	5625
		43,125			43,125
1-1-2009	To auto a/c	21,600	1-1-2009	By Balance b/d	43,125
	To Balance c/d	21,525			
		43,125			43,125

Balance sheet (extract) 2006, 2007, and 2008

Liabilities	Rs	Assets	Rs
31-12-2006			
Bajaj Auto Ltd	75,000	Autos 1,50,000	
		Less: Depreciation 37,500	1,12,500
31-12-2007			
Bajaj Auto	37,500	Autos 1,12,500	
		Less: Depreciation 28,125	84,375
31-12-2009			
Bajaj Auto Ltd	43,125	Autos 84,375	
Provision for loss on repossession	20587	Less: Depreciation 21,094	63,281

In the books of Bajaj Auto Ltd.

M/s Karpagam Ltd.Account

Date	Particulars	Amount RS	Date	Particulars	Amount RS
1-1-06	To Hire Purchase Sales	1,50,000	1-1-06	By Bank (Down payment)	37,500
31-12-06	To Interest	16,875	31-12-06	By Bank	54,375
				By Balance c/d	75,000
		1,66,875			1,66,875
1-1-07	To Balance b/d	75,000	31-12-07	By Bank	48,750
31-12-07	To Interest	11,250		By Balance c/d	37,500
		86,250			86,250
1-1-08	To Balance b/d	37,500	31-12-07	By Repossessed Autos	21,600
31-12-08	To Interest	5,625		By Balance c/d	21,525
		43,125			43,125

Repossessed Auto Account

Date	Particulars	Amount RS	Date	Particulars	Amount RS
31-12-08	To Karpagam Ltd.a/c	21,600	31-12-08	By Bank	30,400
	To Bank(reconditioning expenses)	4,800			
	To Profit &Loss a/c	4,000			
		30,400			30,400

Working note 1.

Computation of lo ss on repossession

Rate of Depreciation	25%	40%
Cash price of two autos on 1-1-2006	1,00,000	1,00,000
Less Depreciation for 2006	25,000	40,000
WDV as on 1-1-2007	75,000	60,000
Less: Depreciation for 2007	18,750	24,000
WDV as on 1-1-2008	56,250	36,000
Depreciation for 2008	14,063	14,400
WDV on repossession	42,187	21600

Loss on repossession=42187-21600=20587

2.

In the books of Eicher Ltd.,

Delhi Branch Account

Date	Particulars	Amount RS	Date	Particulars	Amount RS
1-1	To Balance b/d	15,000	31-3	By Cash	18,750
31-3	To goods sent to branch	4,50,000		By Branch Debtors	3,75,000
				By Branch Adjustment-shortage	11,250
				By balance c/d	60,000
		4,65,000			4,65,000

Branch expenses account

Date	Particulars	Amount RS	Date	Particulars	Amount RS
31/3	To branch debtors-Discount allowed	9225	31/3	By Branch Adjustment	1,02,975
	To Cash	93,750			
		1,02,975			1,02,975

Branch Debtors Account

Date	Particulars	Amount RS	Date	Particulars	Amount RS
1/1	To balance b/d	37,500	31/3	By Cash	3,60,000
	To Branch stock	3,75,000		By Branch expenses	9,225
				By Balance c/d	43,275
		4,12,500			4,12,500

Branch Adjustment account

Date	Particulars	Amount RS	Date	Particulars	Amount RS
1/1	To Branch Opening Stock Reserve (60,000*1/4)	15,000	31/3	By Branch Stock Reserve	3,750
31/3	To Branch Stock(loading on shortage)(11,250*1/4)	2,812		By Goods sent to Branch-loading (4,50,000*1/4)	1,12,500
	To Branch Profit and loss account	98,438			
		1,16,250			1,16,250

Branch Profit and Loss Account

Date	Particulars	Amount	Date RS	Particulars	Amount RS
31/3	To Branch expenses	1,02,975	31/3	By Branch Adjustment a/c	98,438
	To Branch Stock -Cost of shortage(11,250*3/4)	8,438		BY General P&L a/c	12,975
		1,11,413			1,11,413

3. Kolkata Branch trading and profit and loss account for the year ended 31-3-2009

Particulars	Sing. $	Particulars	Sing. $
To Opening Stock	300	By Sales	3125
To Purchases	2083	By Closing stock	833
To Gross profit	1575		
	3958		3958
To Wages and Salaries	133	By Gross Profit	1575
To Rent, Rates, Taxes	100		
To Sundry Charges	42		
To Net Profit	1300		
	1575		1575

Balance Sheet of Kolkata Branch as on 31-3-2009

Liabilities		$	Assets	$
Head Office A/c Balance	760		Fixed Assets	
Add: Net Profit	1300	2060	Furniture	117
Current Liabilities			Current Assets	
Bills Payable		233	Stock	833
Creditors		667	Debtors	1000
			Bills Receivable	267
			Bank	743
		2960		2960

Converted Trial Balance

S.No.	Heads of Account	Rupees	Rupees	Rate of Exchange	$	$
		Dr	Cr		Dr	Cr
1	Opening Stock	12600		42	300	-
2	Purchases & Sales	75000	112500	36	2083	3125
3	Debtors and Creditors	39000	26000	39	1000	667
4	Bills of Exchange	10400	9100	39	267	233
5	Wages &Salaries	4800	-	36	133	-
6	Rent, rates and taxes	3600	-	36	100	-
7	Sundry Charges	1500	-	36	42	-
8	Furniture and Fixtures	4910	-	Actual	117	-
9	Bank Balance	28990	-	39	743	-
10	London office	-	33200	Actual	-	760
		180800	180800		4785	4785
12	Closing Stock	32500		39	833	

PRIME ACADEMY
29th SESSION PROGRESS TEST

PCC / IPCC - AUDITING and ASSURANCE

No of pages: 4 **Total Marks: 75**
Time Allowed: 2Hrs

PART-A 25 x 1=25

1. Vouching refers to
   a) The act of examining vouchers
   b) The act of establishing the authenticity of the transactions recorded
   c) Only a
   d) Both a & b

2. Vouching is a
   a) Substantive procedure
   b) Compliance procedure
   c) Audit evidence
   d) All of the above

3. The type of revenue expenditure, whose benefit extends to more than one accounting year during which it is actually incurred, is Known as
   a) Outstanding Assets
   b) Outstanding Liabilities
   c) Accrued Expenditure
   d) Deferred revenue expenditure

4. The value determined and the costs incurred for the purpose of obtaining the trade marks and copyrights have to be
   a) Capitalized.
   b) Amortized
   c) Only a
   d) Both a & b

5. Cutoff arrangement essentially forms part of
   a) Internal Control
   b) Internal Check
   c) Accounting method
   d) Audit procedure

6. Tests of balances is a
   a) Verification procedure
   b) Analytical Procedure
   c) Compliance Procedure
   d) All of the above

7. Obtaining evidences as to existence, valuation and completeness is a
   a) Substantive procedure
   b) Compliance Procedure
   c) All of the above
   d) None of the above

8. The auditor through the performance of Compliance and Substantive procedure should obtain
   a) Reasonable audit evidence
   b) Appropriate evidence
   c) Sufficient appropriate evidence
   d) Material evidences

9. AAS-2 states that the scope of audit of financial statements will be determined having regard to terms of engagement, relevant legislations and guidelines issued by ICAI
   a) by the auditor
   b) by the Management
   c) by the Government
   d) all of the above

10. Analysis of significant ratios and trends is a
   a) Analytical Procedure
   b) Compliance Procedure
   c) Verification procedure
   d) All of the above

11. An evidence that originates from outside the client's organization is
   a) Confirmation
   b) Reliable evidence
   c) Internal evidence
   d) External evidence

12. Posting Checking, Confirmation are all examples of
   a) Audit procedures
   b) Auditing methods
   c) Audit techniques
   d) All of the above

13. Verification of assets and liabilities is a
   a) Substantive audit procedure
   b) Audit technique
   c) Test of details
   d) All of the above

14. Auditor obtains knowledge about the business from
   a) Discussion with client personnel
   b) Entity specific Legislations and regulations
   c) Documents produced by the client
   d) All of the above

15. Financial statements are
   a) Audited statements of accounts
   b) Profit and loss account statement

c) Statements of figures and facts
d) Statements prepared for a financial period presented

16. Types of assertions addressed by External confirmations include
a) Existence
b) Rights and Obligations
c) Valuation
d) All of the above

17. A letter of engagement is a
a) Management letter
b) An acceptance letter from an auditor
c) Both of the above
d) None of the above

18. Test Checking
a) Is an audit procedure
b) Is a sampling technique
c) Is an error detection mechanism
d) All of the above

19. Purchase is
a) A procedure
b) A subsystem of an business environment
c) A System
d) All of the above

20. The form and content of working papers are affected by
a) Nature of engagement
b) Form pf auditor's report
c) Degree of compliance on internal control
d) All of the above

21. When the auditor intends to use the work of an expert, he should examine:-
a) Evidence to gain knowledge regarding the terms of the expert's engagement.
b) Expert's relationship with the client.
c) all of the above
d) none of the above

22. The best evidence for Purchase returns are
a) entries in the purchase returns books
b) debit notes raised
c) credit notes received from suppliers
d) All of the above

23. Increase in Gross Profit may be due to
a) over valuation of opening stock
b) undervaluation of closing stock
c) under valuation of opening stock
d) all of the above

24. Factor which decrease gross Profit include
   a) Reversal of fictitious sale entries of previous year
   b) Undervaluation of opening stock
   c) Overvaluation of closing stock
   d) Goods sent on consignment basis treated as regular sales

25. Validity of transactions have to be established with regard to
   a) Valid recipients
   b) Legal provisions
   c) Rules and regulations governing the internal working
   d) All of the above

PART-B ***(50 marks)***

(1) (a) What are the basic principles governing an audit as laid down in AAS 1 ? Explain in brief.

(10 Marks)

(b) What is meant by external confirmation? Mention four situations where external Confirmation may be useful for auditors.

(6 Marks)

(2) How will you vouch and/or verify the following? Answer any ***three***

a. Goods sent on Consignment
b. Re-issue of Forfeited Shares
c. Premium paid for insurance of a Motor car.
d. Bank Balances
e. Purchase return

(3 X4 =12 marks)

(3) What are the general principles regarding verification of assets.

(10 Marks)

(OR)

The auditor should evaluate whether he has obtained sufficient appropriate audit evidence before he draws his conclusions there from. State the factors by which the auditor's judgment as to what is sufficient appropriate evidence is influenced.

(4) Write short notes on the following: Answer any ***three***

a. Audit Programme
b. First in First out (FIFO) method
c. Concept of materiality.
d. Procedures and technique

(3 X4 =12 marks)

SUGGESTED ANSWERS

PART – A

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

PART – B

1. (a) Basic Principles Governing an Audit:

Auditing and Assurance Standard-1 on “Basic Principles Governing an Audit” issued by the ICAI describes the basic principles which govern the auditor’s professional responsibilities and which should be complied with whenever an audit of financial information of any entity is carried out. The basic principles as stated are as under:

(i) Integrity, Objectivity and Independence:

The auditor should be honest, straightforward and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity.

(ii) Confidentiality:

The auditor should respect the confidentiality of information acquired in the course of his work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose.

(iii) Skills and Competence:

The audit should be performed and the report should be prepared with due professional care by persons who have adequate training, experience and competence in auditing.

(iv) Work Performed by Others:

When the auditor delegates work to assistants or uses work performed by other auditors and experts, he will be entitled to rely on work performed by others provided he exercise adequate skill and care and is not aware of any reasons to believe that he should not have so relied. The auditor should carefully direct supervise and review work delegated to assistants and obtain reasonable assurance that work performed by other auditors or experts is adequate for his purpose since he will continue to be responsible for forming and expressing his opinion on the financial information.

(v) Documentation:

The auditor should document matters which are important in providing evidence that the audit was carried in accordance with the basic principles.

(vi) Planning:

Planning enables the auditor to conduct an effective audit in an efficient and timely manner. Primarily, planning should be based on the knowledge of the client’s business. Plans should be further developed and revised as necessary during the course of the audit.

(vii) Audit Evidence:

The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions there from on which to base his opinion on the financial information.

(viii) Accounting System and Internal Control:

The auditor should reasonably assure himself that the accounting system is adequate and that all the accounting information which should be recorded has in fact been recorded and internal controls normally contribute to such assurance.

(ix) Audit Conclusion and Reporting:

The auditor should review and assess the conclusions drawn from the audit evidence obtained and from his knowledge of business of the entity as the basis for the expression of his opinion on the financial information. This review and assessment involves forming an overall conclusion as to whether:

(1) The financial information has been prepared using acceptable accounting policies which have been consistently applied,

(2) The financial information complies with relevant regulations and statutory requirements,

(3) There is an adequate disclosure of all material matter relevance to the proper presentation of the financial information, subject to statutory requirements, where applicable.

(b) External Confirmation:

The purpose of Auditing and Assurance Standard 30 is to establish standards on the auditor's use of external confirmations as a means of obtaining audit evidence.

External confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party in response to a request for information about a particular item affecting assertions made by management in the financial statements. The auditor should employ external confirmation procedure in consultation with management.

AAS 5 "Audit Evidence" states that in general, audit evidence from external sources is more reliable than audit evidence generated internally. Audit evidence in the form of written responses to confirmation requests received directly by the auditor from third parties who are not related to the entity being audited, when considered individually or cumulatively with audit evidence from other procedures, may assist in reducing audit risk for the related financial statement assertions to an acceptably low level.

Following are the examples of situations where external confirmation may be useful.

(i) Bank balance & other information from bankers

(ii) Account receivable balances

(iii) Stock held by third parties

(iv) Property Title Deed held by third parties

(v) Investments purchased but delivery not taken

(vi) Loan from lenders

(vii) Account payable balances

(viii) Long outstanding share application money

2. (a) Goods sent on consignment:

Such transaction should be vouched and verified as under-

(i) Performa invoice sent with goods.

(ii) Freight evidences given by the transporter like Challan, Bill, Receipt for freight charged.

(iii) Insurance charge to be verified from cover note and premium paid receipt issued by Insurance Company.

(iv) Account sale sent by consignee, referring to sale price of the goods sold, expenses incurred by him and stock remained unsold.

(v) Unsold goods should have been taken in the closing stock valued properly inclusive of expenses (Proportionate) incurred by consignee.

(vi) Journal entries relating to such transaction be verified from the books of the Company.

(b) Re- issue of forfeited shares:

(i) The auditor should ascertain that Board of Directors has the authority under the Articles to Re-issue forfeited shares. Check relevant resolution of the Board of Directors.

(ii) The auditor should vouch the amounts collected from person to whom the shares have been allotted and verify the entries recorded from re-allotment and see that the total amount received on the shares including that received prior to forfeiture, is not less than the par value.

(iii) The auditor should verify the amount of surplus resulting on the re-issue of shares rightly credited to Capital Reserve Account.

(iv) Where partly paid shares are forfeited for non-payment of calls, and are re-issued as fully paid, the re-issue is treated as an allotment at a discount. In such case, the provisions of Sec. 79 of the Companies Act would require compliance.

(c) Premium paid on Insurance of a Motor Car:

(i) Check insurance cover note issued by Insurance Company. Verify car no., period of Insurance etc.

(ii) See that “No claim Bonus” is given, where entitled, by the Insurance Company.

(iii) Ensure that proper adjustment is made for pre-paid insurance premium.

(d) Bank Balances:

(i) Verify bank balance by reference to bank statements.

(ii) Examine the bank reconciliation statement prepared as on the last day of the year and see whether

(a) Cheques issued by the entity but not presented for payment, and

(b) Cheques deposited for collection by the entity but not credited in the bank account have been duly debited/credited in the subsequent period.

(iii) Pay special attention to those items in the reconciliation statements which are outstanding for an unduly long period. The auditor should ascertain the reasons for such outstanding items from the management. He should also examine whether any such items require an adjustment! Write-off.

(iv) Examine relevant certificates in respect of fixed deposits or any type of deposits with banks duly supported by bank advices.

(v) Check the fonn of Balance Sheet as per Part I of Schedule VI which requires that the bank balance should be segregated as follows:

(i) With Scheduled Banks. And'

(ii) With others. In the last mentioned case, the nature of interest, if any, of a director or his relative with each of the bankers should be disclosed. The nature of deposit in each case should be stated, e.g., current, fixed, call, etc. in case of a non-scheduled bank, its name and the maximum balance that was held by it during the year should also be disclosed.

(e) Purchase Return:

(i) Examine debit note issued to the supplier which in turn may be confirmed by corresponding credit note issued by the supplier acknowledging the same. The relevant correspondence may also be examined.

(ii) Verify by reference to relevant corresponding record in good outward book or the stores records. Further, the figures in these documentary evidence should be compared with the supplier's original invoices for rates and other charges and calculation should also be checked.

(iii) Examine in depth to eliminate the possibility of fictitious purchase returns for covering bogus purchases recorded earlier when such returns outwards are in substantial figure either at the beginning or end of the accounting year.

(iv) Cross-check with reference to original invoices any rebates in price or allowances if any given by suppliers on strength of their Credit Notes.

3. Following are the general principles regarding verification of assets:

(1) Where a company or a partnership has taken over the assets of a going concern, the agreement of sale should be inspected and that amount paid for them ascertained. It should be further verified that the allocation of the total cost among the various assets is fair and reasonable.

(2) The cost of assets acquired piecemeal should be verified with their invoices, purchase agreements or ownership rights and the receipt of the sellers in respect of the price paid. It should be verified that expenditure on assets newly acquired and that on the renewal and replacement of old assets has been correctly recorded, consistent with the method that has been generally followed in the past.

(3) When an asset is sold, its sale-proceeds should be vouched by reference to the agreement, containing the terms and conditions of sale, counterfoil of the receipt issued to the purchaser or any other evidence which may be available. If the sale of a fixed asset has resulted in capital profit, it should be transferred to capital reserve. However, the profit limited to the original cost or a loss should be transferred to the Profit & Loss Account.

(4) It is obligatory for a company to provide for depreciation out of the profits in accordance with the provisions under sub-section (1) of section 205, before any profits can be distributed as dividend. The law requires that depreciation should be provided in one of the ways specified in the section 205(2) of the Companies Act, 1956.

(5) The existence of fixed assets, where practicable, should be verified by a physical inspection and, or by comparing the particulars of assets as are entered in the Schedule attached to the Balance Sheet, with the Plant or Property Register and reconciling their total value with the General Ledger balances.

(6) Wherever possible, all the securities and documents of title, cash, negotiable instruments, etc. representing the assets, should be inspected at the close of the last day of the accounting period. If this be not practicable and the examination is undertaken at the later date, a careful scrutiny of transactions subsequent to the date of the balance sheet must be made to ensure that the changes in their balance that have subsequently taken place are *bonafide* and are supported by adequate evidence.

(7) It should be ascertained that no unauthorized charge has been created against an asset and all the charges are duly registered and disclosed. Where shares or securities are lodged with a bank to secure a loan or an overdraft, a certificate should be obtained from the bank showing the nature of the charge, if any.

(8) Where assets, *e.g.,* government securities, share scrip and debenture bonds are in the custody of a third party other than a bank, these must be inspected.

(9) Where depreciable assets are disposed of, discarded, demolished or destroyed, the net surplus or deficiency, if material, should be disclosed separately.

(10) According to the provisions contained in Part-I of Schedule VI to the Companies Act, 1956, the expenditure on fixed assets is required to be segregated under the following heads :

(*a*) Goodwill
(*b*) Land
(*c*) Buildings
(*d*) Leaseholds
(*e*) Railway sidings
(*f*) Plant and machinery
(*g*) Furniture and fittings
(*h*) Development of property
(*i*) Patents, trade marks and designs
(*j*) Livestock
(*k*) Vehicles, etc.

It is the duty of the management to ensure that the fixed assets of the company are in existence and for this purpose, it is important that physical examination of plant and machinery and other fixed assets should be carried out periodically depending upon the size of the company. The order issued under section 227(4A) of the Act requires the auditor to report on the physical verification of the fixed assets by the management, and the treatment of the discrepancies, if any.

OR

The various factors which influence the auditor's judgment as to what is sufficient and appropriate audit evidence are as under :

(*a*) The degree of risk of misstatement which may be affected by factors such as :
(*i*) The nature of the item;
(*ii*) The adequacy of internal control;
(*iii*) The nature or size of the business carried on by the entity;
(*iv*) Situations which may exert an unusual influence on management;
(*v*) The financial position of the entity.

(*b*) The materiality of the item.

(c) The experience gained during previous audits.
(d) The results of auditing procedures, including fraud and errors which may have been found.

(*e*) The type of information available.

(*f*) The trend indicated by accounting ratios and analysis.

The reliability of audit evidence is influenced by its source — internal or external and by it nature– visual, documentary or oral. While the reliability of audit evidence is dependent on the circumstances under which it is obtained the following generalizations may be useful in assessing the reliability of audit evidence:

(*i*) External evidence (*e.g*., confirmation received from a third party) is more reliable than internal evidence.

(*ii*) Internal evidence is more reliable when related internal control is satisfactory.

(*iii*) Evidence obtained by the auditor himself is more reliable than that obtained from the entity.

(*iv*) Evidence in the form of documents and written representations is more reliable than oral representations.

4 (a) Audit Programme :

Audit programme is a written documents setting forth, in details, the various aspects of the proposed audit. Such programme is prepared before commencing the audit and it is updated with the progress of the audit.

Without a written and pre-determined programme, work is necessarily, to be carried out on the basis of some, 'mental' plan. In such a situation, there is always a danger of ignoring or overlooking certain books and records. Under a properly framed programme, the danger insignificantly less and the audit can proceed systematically.

It serves as a guide to be carried out in the succeeding year. A properly drawn up audit programme serve as evidence in the event of any charge of negligence being brought against auditor.
Audit programme normally provide for the following:

(i) Audit procedure to be applied
(ii) Extent of check
(iii) Timing of check
(iv) Allocation of work amongst the audit team members.
(v) Special instructions based on past experience of the auditee.

Audit Programme provides sufficient details to serves as a set of instruction to the team and also helps to control the proper execution of work.

(b) First-In-First-Out (FIFO) Method:

It is a cost formula used in assigning the cost to inventories which are ordinarily interchangeable. The FIFO formula assumes that the items of inventories which were purchased or produced first are consumed or sold first, and consequently the items remaining in inventory at the end of the period are those which have been most recently purchased or produced. This method of valuation of inventory is not applied where items of inventory are not ordinarily interchangeable.

(c) **The concept of materiality** is fundamental to the process of accounting. It covers all the stages from the recording to classification and presentation. It is, therefore, an important and relevant consideration for an auditor who has constantly to judge whether a particular item or transaction is material or not. AAS-13 on Audit Materiality lays down standard on the concept of materiality and its relationship with audit risk. The auditor would be required to assess materiality right from the stage of planning the audit till the final stage of reaching at his opinion. An auditor requires more reliable evidence in support of material items. He also has to ensure that such items are properly and distinctly disclosed in the financial statements.

"Accounting Standard 1 defines, material items as relatively important and relevant items, *i.e.* "items the knowledge of which would influence the decisions of the users of the financial statements". Whether or not the knowledge of an item would influence the decisions of the users of the financial statements is dependent on the particular facts and circumstances of each case. It is not possible to lay down precisely either in terms of specific account or in terms of amounts the items which could be considered as material in all circumstances. Materiality is a relative term and what may be material in one circumstance may not be material in another. Therefore, the decision to judge the materiality of the item whether in the aggregation of items, presentation or classification of items shall depend upon the judgment of prepares of the account on the circumstances of the particular case. In many cases percentage comparison may be useful in indicating the materiality of an item.
Materiality of an item can be judged:

(*a*) from the impact that the item has on the profit or loss or on the balance sheet, or on the total of the category of items to which it pertains, and

(*b*) on its comparison with the corresponding figure of the previous year. In many circumstances even small amount may be considered material.

(d) Distinction between Procedures and technique

The two terms, procedure and techniques, are often used interchangeably; in fact, however, a distinction does exist. Procedure may comprise a number of techniques and represents the broad frame of the manner of handling the audit work; techniques stand for the methods employed for carrying out the procedure.

For example, procedure requires an examination of the documentary evidence. This job is performed by the procedure known as vouching which would involve techniques of inspection and checking computation of documentary evidence. As per AAS-5 on Audit Evidence, basically audit procedures are broadly of two types viz. compliance procedures and tests of detail. Test of details are further comprised of substantive audit procedures and analytical review procedures. Vouching is a substantive audit procedure which involves audit techniques like casting, cross-casting, checking of posting, etc. On the other hand, verification of assets and liabilities is a substantive audit procedure which involves application of audit techniques like physical examination, confirmation from third parties, etc.
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PRIME ACADEMY
29 th SESSION PROGRESS TEST
PCC / IPCC LAW, ETHICS AND COMMUNICATION

No of pages: 3 **Total Marks: 75**
Time Allowed: 2Hrs

PART-A **25 x 1=25**

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

2. A private 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 minimum 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)
   (d) None of the above

6. A private limited company which is holding 51 % in public limited company is
   (a) Deemed Public limited company
   (b) Public limited company
   (c) Subsidiary company
   (d) Holding Company

7. Which one of the following is not corporate governance
   (a) Accountability of Board of directors
   (b) Disclosure and transparency
   (c) Maximize profits
   (d) Corporate social responsibility

8. Out of the following which one is correct with respect to business ethics.
   (a) Attention to business ethics has substantially improved society.
   (b) Ethics programs does not help to maintain moral course in turbulent times.
   (c) Ethics programs never cultivate strong team work and productivity.
   (d) Ethics does not support employee growth.

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) lump sum by the company
   (b) 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 public company can be converted into a private 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 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

24. 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.

25. Corporate governance means
    (a) Trusteeship
    (b) Transparency
    (c) Empowerment and accountability
    (d) All of the above

PART B 50 Marks

Question No 2 is compulsory and Answer any 4 questions from the rest

1. What do you mean by corporate governance? Is it mandatory for Board of directors to practice corporate governance?

10 Marks

2. ABC Ltd wants to conduct an Extraordinary General Meeting on 25th August 2009 for the purpose of increasing authorized share capital of the company. Draft a Notice for the Extraordinary General Meeting.

10 Marks

3. (a) What are the steps involved for incorporation of a company?

   (b) What are the forms of communication? Explain the advantages of formal communication.

2 x 5 = 10 Marks

4. (a) What procedure shall a company follow to shift the registered office from one state to another state ?

   (b) Distinguish between equity share and preference share 2x 5 = 10 Marks

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

6 (a) Distinguish between morals and ethics. What is the need for business ethics?

(b) What is the need for social responsibilities. 2 x 5 = 10 Marks

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

   a) Workplace Ethics
   b) Provisional contracts
   c) Doctrine of Indoor management
   d) Selective perception

2 x 5 = 10 Marks

SUGGESTED ANSWERS

PART A

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

PART - B

1.

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

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

For listed companies it is mandatory to practice corporate governance and other companies though it is not mandatory but it is advisable to practice corporate governance in the interest of stakeholders.

2.

NOTICE

Notice is hereby given that an Extraordinary General Meeting of ABC Limited will be held at 210, Anna Salai, Chennai – 600002 on Tuesday, the 25th August 2009 at 11.a.m to consider and, if thought fit to pass with or without modification, the following resolution as a special resolution.

SPECIAL BUSINESS

To pass the following resolution with or without modification as Special resolution:

"RESOLVED that pursuant to the section 94(1) (a) of the Companies Act, 1956 , and any other applicable provisions if any of the Companies Act, 1956, the authorized share capital of the company be and is hereby increased from Rs.40 lakhs divided into 400000 equity shares of Rs.10 each to Rs.50 Crores divided into 5,00,00,000 equity shares of Rs.10 each ."

"RESOLVED further that the existing clause V (a) of the Memorandum of Association as to share capital be and is hereby deleted and in its place the following clause V (a) shall be substituted."

The Authorized Share Capital of the Company is Rs.50,00,00,000 (Rupees Fifty crores only) divided into 5,00,00,000 (Five Crores only) equity shares of Rs.10 each with rights, privileges and conditions attaching thereto as provided by the regulations of the Company for the time being. The Company has power from time to time to increase or reduce its capital and to divide the shares in the original or increased share capital for the time into several classes and to attach thereto respectively such preferential rights, privileges or conditions as may be determined by or in accordance with the regulations of the Company and to vary, modify or abrogate any such rights, privileges or conditions in such manner as may be permitted by the Companies Act, 1956 or provided by the regulations of the Company for the time being.

For and on behalf of the Board.

ABC Limited

Place: Chennai
Date: 01-07-2009.

DIRECTOR.

NOTE: 1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.

3. (a)

First step in the incorporation of the company is to get Director Identification number for the directors. Afterwards apply for the name availability.

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 Whole time director or Manger {section 33(1) (c)}

4. A declaration that the requirements of the Act and the rules framed hereunder have been complied with. This requirement has to be signed by an advocate of the Supreme Court or High Court or an attorney or a pleader having the right to appear before High Court or a secretary or a Chartered accountant in whole time practice in India who is engaged in the formation of a company or by a person named in the articles as a director {section 33 (2)}

5. In case of a public company having a share capital, where the articles name a person as director/directors, the list of the directors and their written consent in prescribed form to act as directors and take up qualification shares, if required by Articles of Association.
   Besides the aforesaid mentioned documents, the company must file Form 32 giving the particulars of Directors and shall give a notice in Form 18 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)**

Forms of Communication
Forms of Communication can be divided into two categories

i) Formal
ii) Informal

Advantage of formal communication

a) The formal channels account for most of the effectiveness of communication. As has been said earlier great care has to be taken in sending across any letter or report through the 'proper' formal Channel

b) Formal channel cover an ever – widening distance as organization grow. Through them it is easier to reach out to the branches of an organization spread far and wide.

c) The formal channel because of their tendency to filter information ,keep the higher level manager from getting bogged down

d) Formal channels of Communication consolidate the organization and satisfy the people in managerial position

4.(a)

The change of registered office from one State to another state requires approval from the company Law Board and no objection from the creditors.

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)

Distinguish between Equity Shares and Preference Shares

S no	Equity Shares	Preference Shares
1	Equity shares are those shares which don't have a preferential Dividend	Preference shares are those shares which have fixed dividend and repayment of capital on winding up.
2	Dividend Cant not be paid Cumulative	Dividend can be paid Cumulative
3	Equity shares cant be redeemable, the share amount can be paid on the Winding up	Preference shares can be redeemable
4	They have right to vote on the AGM	They have right to vote when there is arrears of Dividend
5	Dividend paid only after the payment of Preference shareholder	Dividend is Payable only there is actual profit
6	Equity shareholders has control over management.	No control over management

5. Meaning of Corporate Veil

From the juristic point of view a company is a legal person distinct from its members (Salmon v. Saloman & Co. Ltd). This principle may be referred to as the veil of incorporation. The effect of this principle is that there is a fictional veil and not a wall between the company and its members. “Lifting the veil” means looking behind the company as a legal person, i.e. disregarding the corporate entity and paying regard instead to the realities behind the legal façade.

Where the courts ignore the company and concern themselves directly with the members or managers, the corporate veil may be said to have been lifted only in corporate circumstances the courts are willing to lift the corporate veil and that too, when questions of control are involved rather than merely question of ownership.

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

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

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

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

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

(v) 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.

6 (a)

The word "Moral" is defined as relating to principles of right and wrong. Let us draw a distinction between Ethics and Morals. Although both words are broadly defined in contemporary English as having to do with right and wrong conduct, the root word for ethical is the Greek "ethos, "meaning "character", while the root word for Moral is Latin "mos," meaning "custom".

Character and custom, however, provide two very different standards for defining what is right and what is wrong. Character is a personal attribute, while custom is defined by a group over time. People have character. Societies have custom. To violate either can be said to be wrong, within its appropriate frame of reference.

Another way to look at the distinction is to say that morals are accepted from an authority (cultural, religious, etc.), while ethics are accepted because they follow from personally accepted principles. For example, if one accepts the authority of a religion, and that religion forbids stealing, then stealing would be immoral. An ethical view might be based on an idea of personal property that should not be taken without social consent (like a court order). Moral norms can usually be expressed as general rules and statements such as "always tell the truth". And are typically first absorbed as a child from family, friends, school, religious teaching and other associations.

Morals work on a smaller scale than ethics, more reliably, but by addressing human needs for belonging and emulation, while ethics has a much wider scope. It is the process of examining the moral standards of an individual or society to determine whether these standards are reasonable or unreasonable in concrete situations and issues.
Need for business ethics

Society bestows upon businesses the authority to own and use land and natural resources. In return, Society has the right to expect that productive organization will enhance the general interests of consumers, employees and community. Society may also expect that organizations honour existing rights and limit their activities within the bounds of justice. So under this ‘Social contract’ between society and business, what rules should guide the behavior of the business enterprises? What are the minimal duties of business professionals? Business ethics provides this guidance including the consequences and complications their actions. Thus Business ethics is that set of principles or reasons which should govern the conduct of business- at the individual or collective level by the application of ethical reasoning to specific business situations and activities

(b) Need for social responsibilities:

1. If a business intends to retain its existing social role and social power, it must respond to society’s needs consecutively.
2. To fulfill long term self interest.
3. To establish better public image
4. To avoid Government Regulation or Control
5. To avoid Misuse of National Resources and economic power
6. To convert Resistance into Resources
7. To minimize Environmental Damage

7 (a)

Workplace ethics is how one applies value to work in actual decision making- a set of right and wrong actions that directly impact the workplace. They are an extension of the personal standards or lack of them that is intrinsic in the people who comprise the workplace. It is about making choices that may not always feel good or seem beneficial but are the right choices to make Ethical decisions in an organization are influenced by three key factors: individual moral standards, the influence of managers and co-workers, and the opportunity to engage in misconduct.

While one may have great control over personal ethics outside the workplace, co workers and management through authority and example, exert significant control on ones choices at work. In fact, the activities and examples set by co-workers, along with rules and polices established by the firms, are critical in gaining consistent ethical compliance in organization. If the company fails to provide good examples and direction for appropriate conduct, confusion and conflict will develop and result in the opportunity for unethical behavior.

(b)

Contracts entered into by a company after its incorporation and before it is entitled to commence business are provisional only and are not binding on the company until the trading certificate is issued- Section 149(4).The expression “provisional” denotes that the contract should be read subject to an implied term that it shall not be binding until the company becomes entitled to commence business.

(c)

Indoor Management it is obligation of Management Where an Outsider has an presumption (option) to relay. Indoor Management is a internal proceedings. as per doctrine of Indoor Management outsiders having satisfied that the transaction are not inconsistent with MOA or AOA,are bound to enquire into the regularity of any internal proceedings of the company and they are entitled to assume the provisions of the articles are observed by the officers of the company.

Exceptions
Act prohibited by co. law
Act prohibited by MOA & AOA
Outsider has knowledge of irregularity
Outsider is negligent
Forged document

(d)

Perception Provides each of us with a unique view of the world- a view some times related to, but not necessarily identical with that held by others. Selective perception means that the receivers selectively see and hear depending upon their needs, background, motivations, experience and other personal characteristics

While decoding the messages, most protect their own interests and expectations into process of communication leading to a particular kind of feedback that may become a communication problem