

PRIME ACADEMY
31ST SESSION PROGRESS TEST - ADVANCED ACCOUNTING
QUESTION PAPER

No. of Pages: 5

Total Marks: 75
Time Allowed: 2Hrs
25 X 1 = 25 Marks

PART- A

1. In a hire purchase agreement the hire vendor transfers
 - a. risks and rewards
 - b. possession
 - c. ownership rights
 - d. all of the above

2. Total interest on hire purchased goods is the difference between
 - a. Hire purchase price and cash price
 - b. Hire purchase price and down payment
 - c. Cash price and first installment
 - d. None of the above

3. Depreciation on hire purchased asset is claimed by
 - a. hire vendor
 - b. hire purchaser
 - c. either the hire vendor or the hire purchaser as per the agreement between them
 - d. no depreciation is claimed till the last installment is paid/received

4. Depreciation on asset acquired on hire purchase is calculated on
 - a. Hire purchase price
 - b. Cash price
 - c. Cost price
 - d. Installment price

5. Sale of Repossessed goods is recorded through
 - a. Trading account
 - b. Hire purchase sale account
 - c. Resale account
 - d. Goods repossessed account

6. Under debtors method, opening balance of debtors is
 - a. debited to branch account
 - b. credited to branch account
 - c. debited to H.O. account
 - d. credited H.O. account

7. Cost of goods returned by branch will have the following effect
 - a. Goods sent to branch account will be debited
 - b. Goods sent to branch account will be debited
 - c. Branch stock account will be credited
 - d. (a) and (c)

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

- c. opening rate
 - d. none of the above
9. All of the following are examples of monetary assets except :
- a. Cash
 - b. Inventory
 - c. Receivables
 - d. Payables
10. If asset is carried at cost, cost and depreciation of tangible fixed assets is translated at
- a. Average rate
 - b. Closing rate
 - c. Opening rate
 - d. Exchange rate at the date of purchase of asset
11. Incomes and expenses of a NFO is translated at
- a. Average rate that approximates the actual exchange rates
 - b. Opening rate
 - c. Exchange rate at the date of transaction
 - d. Either (a) or (c)
12. As 11 classifies foreign branches are classified as
- a. Autonomous branches and non-autonomous branches
 - b. Uncontrolled and fully controlled branches
 - c. Statutory and non-statutory branches
 - d. Integral and non-integral foreign operation
13. Assets are repossessed at
- a. the value of balance installments not yet due
 - b. Mutually agreed value
 - c. Depreciated value
 - d. Market price
14. The balance in HP Debtors account represents
- a. installments not yet due
 - b. Installments due but not yet paid
 - c. installments so far paid
 - d. Installments the have become due.
15. The hire purchase agreement is a contract of
- a. bailment
 - b. indemnity
 - c. pledge
 - d. sale
16. An independent branch sends
- a. a record of all transactions.
 - b. a proforma invoice.
 - c. a final statement of accounts for incorporation.
 - d. a trial balance.
17. A branch is identified, usually by its
- a. Products produced.

- b. geographical location
 - c. Profitability
 - d. All of the above.
18. When a hire purchaser wants to return the goods ,he only has to pay
- a. the balance installments due
 - b. the installments not yet due
 - c. the installments fallen due
 - d. Penalty.
19. In case of installment purchase, on default of payment ,the vendor can
- a. repossess the goods
 - b. auction the goods
 - c. take action for non payment
 - d. can resell the goods
20. When a debtor's method of accounting for transactions is followed, no entry is made for
- a. Sales made at the head office.
 - b. Bad debts incurred at the head office.
 - c. Sales made at the branch.
 - d. Remittance from head office.
21. A branch adjustment account facilities to find out
- a. The stock reserve
 - b. the gross profit
 - c. the expenses incurred
 - d. All of the above.
22. The balance in branch stock account shows
- a. the invoice price of closing stock
 - b. amount due from debtors
 - c. the stock reserve to be created
 - d. the stock lost in transfer
23. After incorporation of Branch trial balance in head office, the branch account balance will be
- a. debit balance, as is responsible for its assets
 - b. Credit balance as money is owed by the head office for branch expenses
 - c. debit or credit balance as the case may be
 - d. nil balance
24. Accounting for goods in transit is done at
- a. head office
 - b. Branch books.
 - c. Recipient's books.
 - d. Sender's books.
25. Interest suspense account shows
- a. credit balance
 - b. debit balance
 - c. nil balance
 - d. hire purchase price

PART - B

1. Red and Co. of Mumbai started a branch at Bangalore on 1.4.2009 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2010:

	Rs
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2010 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2010	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2010	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment A/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit. **(16 Marks)**

2. S Ltd. has a Hire-purchase department. Goods are sold on hire-purchase at cost plus 60%. From the following particulars draft Hire-purchase trading account and compute profit or loss for the year ended 31st March, 2010:

	Rs.
Goods with customers on 1.4.2009 (installments are not due)	3,20,000
Installments due on 1.4.2009 (customers are paying)	20,000
Goods sold on hire-purchase during the year (i.e., from 1.4.2009 to 31.3.2010)	16,00,000
Cash received from customers	11,20,000
Goods re-possessed from customers valued at 40%	16,000
Unpaid installments in respect of re-possessed goods	40,000
Goods with customers as on 31.3.2010 (at hire-purchase price)	7,20,000

(8 Marks)

3. Alphas & 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 31.3.2010, 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 Marks)**

4. Carlin & Co. has head office at New York (U.S.A.) and branch at Mumbai (India). Mumbai branch furnishes you with its trial balance as on 31st March, 2010 and the additional information given thereafter:

	Rs in Thousands	
Dr		Cr
Stock on 1st April, 2010	300	-
Purchases and sales	800	1200
Sundry Debtors and creditors	400	300
Bills of exchange	120	240
Wages and salaries	560	-
Rent, rates and taxes	360	-
Sundry charges	160	-
Computers	240	-
Bank balance	420	-
New York office a/c	-	1620
	3360	3360

Additional information:

- a. Computers were acquired from a remittance of US \$ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.
- b. Unsold stock of Mumbai branch was worth Rs 4,20,000 on 31st March, 2010.
- c. The rates of exchange may be taken as follows:
 - i. on 1.4.2009 @ Rs. 40 per US \$
 - ii. on 31.3.2010 @ Rs. 42 per US \$
 - iii. average exchange rate for the year @ Rs. 41 per US \$
 - iv. Conversion in \$ shall be made upto two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2010 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of Carlin & Co. You are informed that Mumbai branch account showed a debit balance of US \$ 39609.18 on 31.3.2010 in New York books and there were no items pending reconciliation **(16 Marks)**

5. On Jan st 2010, Sony Ltd., purchased an equipment from TATA Ltd., .on hire purchase on the following terms :
Cash price Rs.5,54,750; cash down payment 20%;four equal installments of Rs.1,40,000 each to be paid at the end of each year.

You are required to compute the amount of interest pertaining to each accounting year assuming that the sales was made at the end of the year **(8 Marks)**

PRIME ACADEMY
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SUGGESTED ANSWERS

PART A

Sl No	Answers
1	b
2	a
3	b
4	b
5	d
6	a
7	d
8	a
9	b
10	d
11	d
12	d
13	b
14	b
15	a
16	c
17	b
18	c
19	c
20	c
21	b
22	a
23	d
24	c
25	b

PART – B

1.

	Branch Debtors A/c	
Dr	Rs	Cr
To Branch Stock A/c	1,16,000	By Branch Cash A/c(balancing figure) 74,000 By Bad Debts (written off) 400 By Balance c/d 41,600
	<u>1,16,000</u>	<u>1,16,000</u>
Goods Sent to Branch A/c		
To Branch Adjustment A/c 1,00,000x20/100	20,000	By Branch Stock A/c 1,20,000
To Purchases/ Trading A/c	1,00,000	
	<u>1,20,000</u>	<u>1,20,000</u>
Branch Cash A/c		
To Branch Debtors A/c	74,000	By Branch Expenses A/c 24,000
To H.O. A/c (cash remittance)	6,000	By H.O. (cash remittance) 86,000
To Branch Stock A/c - Cash Sales (balancing figure)	34,000	By Balance c/d 4,000
	<u>1,14,000</u>	<u>1,14,000</u>
Branch Stock A/c		
To Goods sent to Branch A/c	1,20,000	By Branch Debtors A/c 1,16,000
To Branch Adjustment A/c (Excess profit over normal loading balancing figure)	54,000	By Branch Cash A/c (Sales) 34,000 By Goods in Transit(1,20,000-1,08,000) 12,000 By Balance c/d 12,000
	<u>1,74,000</u>	<u>1,74,000</u>
Branch Expenses A/c		
To Branch Cash A/c	24,000	By Branch P&L A/c 24,000
	<u>24,000</u>	<u>24,000</u>
Branch Adjustment A/c		
To Stock Reserve A/c	2,000	By Goods sent to Branch A/c 20,000
To Goods in transit Reserve A/c	2,000	By Branch Stock A/c 54,000
To Branch P&L A/c (Balancing figure)	70,000	
	<u>74,000</u>	<u>74,000</u>
Branch P & L A/c		
To Branch Expenses A/c	24,000	By Branch Adjustment A/c 70,000
To Bad Debts	400	
To Net Profit (transferred to General P&L A/c)	45,600	
	<u>70,000</u>	<u>70,000</u>

Working Notes:

1. Loading is 20% of cost i.e. 16.67% (1/6th) of invoice value.
Loading on closing stock = Rs. 1/6th of Rs.12,000 =Rs. 2,000.
2. Loading on goods sent to branch = 1/6th of Rs.1,20,000 = Rs. 20,000.
3. Loading on goods in transit = 1/6th of Rs. 12,000 = Rs. 2,000.

2.

In the books of S Ltd.
Hire Purchase Trading Account
for the year ended on 31st March, 2010

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

Working Notes:

1. Opening H.P. Stock reserve $3,20,000 \times 60/160 =$ Rs 1,20,000
2. Loading on goods sold on H.P. $16,00,000 \times 60/160 =$ Rs 6,00,000
3. Closing H.P. Stock reserve $7,20,000 \times 60/160 =$ Rs 2,70,000
4. Calculation of Installments due at the end of the year

	Rs	Rs
Opening H.P. Stock + Opening Installments due + H.P. Sales during the year (i.e., 3,20,000 + 20,000 + 16,00,000)		19,40,000
Less: Cash received from customers	11,20,000	
Installments unpaid for repossessed goods	40,000	
Closing balance of H.P. Stock	<u>7,20,000</u>	<u>18,80,000</u>
Closing Installments Due		<u>60,000</u>

3. Nagpur branch must include the inventory in its books as goods in transit.

The following journal entry must be made by the branch:

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

4.

Carlin & Co. Ltd.
Mumbai Branch Trial Balance in (US \$) as on 31st March, 2010

		Dr US \$	Cr US \$
	Conversion rate per US \$		
Stock on 1.4.2009	40	7,500.00	-
Purchases and sales	41	19,512.20	29,268.29
Sundry debtors and creditors	42	9,523.81	7,142.86
Bills of exchange	42	2,857.14	5,714.29
Wages and salaries	41	13,658.54	-
Rent, rates and taxes	41	8,780.49	-
Sundry charges	41	3,902.44	-
Computers	-	6,000.00	-
Bank balance	42	10,000.00	-
New York office A/c	-	-	39,609.18
		81,734.62	81,734.62

Trading and Profit & Loss Account for the year ended 31st March, 2010

	US \$		US \$
To Opening Stock	7,500.00	By Sales	29,268.29
To Purchases	19,512.20	By Closing stock	10,000.00
To Wages and salaries	13,658.54	By Gross Loss c/d	1,402.45
	40,670.74		40,670.74
To Gross Loss b/d	1,402.45	By Net Loss	17,685.38
To Rent, rates and taxes	8,780.49		
To Sundry charges	3,902.44		
To Depreciation on Computers (US \$ 6,000 × 0.6)	3,600.00		
	17,685.38		17,685.38

Balance Sheet of Mumbai Branch as on 31st March, 2010

<i>Liabilities</i>	US \$	US \$	<i>Assets</i>	US \$	US \$
New York Office A/c	39,609.18		Computers	6,000.00	
Less : Net Loss	17,685.38	21,923.80	Less : Depreciation	3,600.00	2,400.00
Sundry creditors		7,142.86	Closing stock		10,000.00
Bills payable		5,714.29	Sundry debtors		9,523.81
			Bank balance		10,000.00
			Bills receivable		2,857.14
		34,780.95			34,780.95

Note: The above answer has been given on the basis that the Mumbai branch is an integral foreign operation of carlin & Co.

5. Interest = Hire purchase price-cash price
 Cash price = Rs.5,54,750
 Hire purchase price = Down payments +Installments
 = (20%of 5,54,750)+(4*1,40,000)
 = Rs 6,70,950
 Therefore interest = 6,70,950-5,54,750= Rs 1,16,200

Table showing calculation of interest

Year	Amount due in the beginning of each year (Rs)	Installment paid (Rs)	Amount due at the end of the year (Rs)	Ratio of outstanding installments	Interest (Rs)
1	5,60,000	1,40,000	4,20,000	4	46,480 (1,16,200*4/10)
2	4,20,000	1,40,000	2,80,000	3	34,860 (1,16,200*3/10)
3	2,80,000	1,40,000	1,40,000	2	23,240 (1,16,200*2/10)
4	1,40,000	1,40,000	-	1	11,620 (1,16,200*1/10)
Total		5,60,000		10	1,16,200

PRIME ACADEMY
31ST SESSION PROGRESS TEST – AUDITING & ASSURANCE
QUESTION PAPER

No. of Pages: 4

Total Marks: 75
Time Allowed: 2Hrs

PART- A

25 X 1 = 25 Marks

1. Sufficiency of audit evidence refers to the
 - a. measure of the quantity of audit evidence
 - b. Appropriateness of audit evidence
 - c. measure of the quality of audit evidence;
 - d. all of the above

2. Inherent and control risk
 - a. Exist independently of the audit of the financial statements.
 - b. are the entity's risks
 - c. are components of risks of material misstatement at the assertion level
 - d. all of the above

3. The possibility of human errors or mistakes is an example of
 - a. inherent risk
 - b. control risk
 - c. Detection risk
 - d. none of the above

4. Responsibility to maintain an adequate accounting system incorporating various internal controls is that of
 - a. an auditor
 - b. an accountant
 - c. management
 - d. all of the above

5. 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

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

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

8. Factors that determine the form and contents of working papers include
 - a. Nature of engagement
 - b. Nature and complexity of client business

- c. Form of the auditor's report
 - d. All of the above
9. 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
10. Nature, timing, and extent of the auditor's procedures will help in reducingtype of audit risk to an acceptably low level
- a. Inherent risk
 - b. Detection risk
 - c. Control Risk
 - d. All of the above
11. Audit risk is associated with
- a. Inherent Risk
 - b. Control risk
 - c. Detection risk
 - d. All of the above
12. 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
13. Examination as to whether assets and liabilities are properly stated in the balance sheet & other statements refers to
- a. Vouching
 - b. Verification
 - c. Confirmation
 - d. All of the above
14. Audit Procedures for Obtaining Audit Evidence include
- a. Risk assessment procedures
 - b. Tests of controls and Substantive procedures
 - c. Only a
 - d. Both a AND b
15. Observation is an
- a. Audit procedure
 - b. Test of Control
 - c. Audit evidence
 - d. All of the Above
16. SA 600 deal with
- a. An auditor's relationship with the previous auditor
 - b. Joint auditors
 - c. Principal auditor, when uses the work of another auditor
 - d. None of the above
17. When planning to use the work of another auditor, the principal auditor should

- a. consider the professional competence of the other auditor
 - b. perform procedures to obtain sufficient appropriate audit evidence
 - c. consider the significant findings
 - d. all of the above
18. An external auditor will determine whether the work of the internal auditor is adequate based on
- a. The timing of such work;
 - b. Technical competence, objectivity, communication
 - c. Professional knowledge
 - d. Internal Auditor's position
19. While Using Specific Work of the Internal Auditors, audit procedures may include
- a. Examination of items already examined by the internal auditors;
 - b. Examination of other similar items; and
 - c. Observation of procedures performed by the internal auditors.
 - d. All of the above
20. Expertise as per SA620 refers to
- a. Skills, knowledge and experience in a particular field
 - b. possessing expertise in a field other than accounting or auditing
 - c. expertise to obtain sufficient appropriate audit evidence
 - d. all of the above
21. Obtaining an Understanding of an Auditor's Expert include
- a. Evaluate the adequacy of that work for the auditor's purposes.
 - b. Determining the nature, scope and objectives of that expert's work
 - c. Only a
 - d. Both a and b
22. Auditor's Expert means a
- a. An individual or organization possessing expertise in other fields that may be useful in obtaining sufficient evidence
 - b. A technical expert
 - c. A management expert
 - d. All of the above
23. Form, content and extent of audit documentation depend on-pick the odd one out
- a. size and complexity of the entity
 - b. size and nature of the auditor's entity
 - c. nature of the audit procedures
 - d. audit methodology and tools
24. Ownership of Audit Documentation
- a. Is that of the Auditor
 - b. Is that of the Management
 - c. Is that of the Assistants performing the audit
 - d. All of the above
25. Preconditions for an Audit include (as per SA 210)
- a. an acceptable financial reporting framework
 - b. Agreement of the Responsibilities of Management
 - c. Only a
 - d. Both a and b

PART – B

- 1) Define/ Describe the following terms as per the standards on Auditing: **(2 X 5 = 10 Marks)**
- i) Financial statements
 - ii) Audit Documentation
- 2) 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. How will you assess the reliability of audit evidence? **(10 Marks)**
- 3) 'In vouching payments, the auditor does not merely check proof that money has been Paid away.' Discuss. **(4 Marks)**
- 4) What are the points to be considered while using the work of an expert? **(10 Marks)**
- 5) How will you vouch and/or verify the following? **(4 X 4 = 16 Marks)**
- i) Research and Development expenses
 - ii) Foreign travel expenses
 - iii) Sale proceeds of Scrap Material.
 - iv) Borrowing from Banks

PRIME ACADEMY
31ST SESSION PROGRESS TEST – AUDITING & ASSURANCE
SUGGESTED ANSWERS

PART A

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

PART – B

1. (i) **Financial statements** – A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.

(ii) **Audit documentation** – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the Auditor reached (terms such as "working papers" or "work papers" are also sometimes used).

2. **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 its 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.

3. **Vouching is a substantive audit procedure** which aims at verifying the genuineness and validity of a transaction contained in the accounting records. It involves examination of documentary evidence to support the genuineness of transaction.

Thus the object of vouching the payments of a business is not merely to ascertain that money has been paid away; but the auditor aims to obtain reasonable assurance in respect of following assertions in regard to transactions recorded in the books of account that –

- i. a transaction is recorded in the proper account and revenue or expense is properly allocated to the accounting period ;
- ii. a transaction pertains to entity and took place during the relevant period;
- iii. all transactions which have actually occurred have been recorded;
- iv. all transactions were properly authorized; and
- v. Transactions have been classified and disclosed in accordance with recognized accounting policies and practices.

Thus, it is through vouching that the auditor comes to know the genuineness of transactions recorded in the client's books of account wherefrom the financial statements are drawn up.

Apart from genuineness, vouching also helps the auditor to know the regularity and validity of the transaction in the context of the client's business, nature of the organization and organizational rules.

Thus, the auditor's basic duty is to examine the accounts, not merely to see its arithmetical accuracy but also to see its substantial accuracy and then to make a report thereon.

This substantial accuracy of the accounts and emerging financial statements can be known principally by examination of vouchers which are the primary documents relating to the transactions. If the primary document is wrong or irregular, the whole accounting statement would, in turn, become wrong and irregular. Precisely auditor's role is to see whether or not the financial statements are wrong or irregular, and for this, vouching is simply imperative. Thus, vouching which has traditionally been the backbone of auditing does not merely involve checking arithmetical accuracy but goes much beyond and aims to check the genuineness as well as validity of transactions contained in accounting records

4. During the audit the auditor may seek to obtain, in conjunction with the client or independently, audit evidence in the form of reports, opinions, valuations, and statements of an expert.

Examples are:

- valuations of certain types of assets, for example, land and buildings, plant and machinery, works of art, and precious stones.
- determination of quantities or physical condition of assets, for example, minerals stored in stockpiles,
- Mineral and petroleum reserves, and remaining useful life of plant and machinery.
- Determination of amounts using specialized techniques or methods, for example, an actuarial valuation.
- the measurement of work completed and to be completed on contracts in progress for the purpose of revenue recognition.
- legal opinions concerning interpretations of agreements, statutes, regulations, notifications circulars, etc.
- When determining whether to use the work of an expert or not, the auditor should consider:
- the materiality of the item being examined in relation to the financial information as a whole.
- the nature and complexity of the item including the risk of error therein, and the other audit evidence available with respect to the item.
- Skills and competence of the expert: When the auditor plans to use the expert's work as audit evidence, he should satisfy himself as to the expert's skills and competence by considering the expert's:
- professional certification, license or membership in an appropriate professional body.
- experience and reputation in the field in which the auditor is seeking evidence.

However, when the auditor uses the work of an expert employed by him, he will not need to inquire into his skills and competence.

Objectivity of the expert: The auditor should also consider the objectivity of the expert. The risk that an expert's objectivity will be impaired increases when the expert is:

- employed by the client, or
- related in some other manner to the client.

Accordingly, in these circumstances, the auditor should (after taking into account the factors stated above) consider performing more extensive procedures than would otherwise have been planned, or he might consider engaging another expert.

5. **(i) Research and Development Expenses**

- i. Ascertain the nature of research and development work at the outset and enquire whether separate Research and Development Department exists.
- ii. See allocation of expenses under revenue and deferred revenue. Ensure that expenses which are routine development expenses are charged to Profit and Loss Account.
- iii. Check whether the concerned research activity is authorized by the Board and has relevance to the objectives of the company.

- iv. Examine that generally research expenses for developing products or for inventing a new product are treated as deferred revenue expenditure to be written off over a period of three to five years, if successful. In case it is established that the research effort is not going to succeed, the entire expenses incurred should be written off to the profit and loss account.
- v. Ensure that if any machinery and equipment have been bought specially for the purpose of research activity, the cost thereof, less the residual value should be appropriately debited to the Research and Development Account over the years of research.

(ii) Foreign Travel Expenses

- a) Examine T.A. bills submitted by the employees stating the details of tour, details of expenses, etc.
- b) Verify that the tour programme was properly authorised by the competent authority.
- c) Check the T.A. bills along with accompanying supporting documents such as air tickets, travel agents bill, hotel bills with reference to the internal rules for entitlement of the employees and also make sure that the bills are properly passed.
- d) See that the tour report accompanies the T.A. bill. The tour report will show the purpose of the tour. Satisfy that the purpose of the tour as shown by the tour report conforms to the authorization for the tour.
- e) Check Reserve Bank of India's permission, if necessary, for withdrawing the foreign exchange. For a company the amount of foreign exchange spent is to be disclosed separately in the accounts as per requirement of Part I of Schedule VI to the Companies Act, 1956.

(iii) Sale Proceeds of Scrap Material

- a) Review the internal control on scrap materials, as regards its generation, storage and disposal and see whether it was properly followed at every stage.
- b) Ascertain whether the organization is maintaining reasonable records for the sale and disposal of scrap materials.
- c) Review the production and cost records for determination of the extent of scrap materials that may arise in a given period.
- d) Compare the income from the sale of scrap materials with the corresponding figures of the preceding three years.
- e) Check the rates at which different types of scrap materials have been sold and compare the same with the rates that prevailed in the preceding year.
- f) See that scrap materials sold have been billed and check the calculations on the invoices.
- g) Ensure that there exists a proper procedure to identify the scrap material and good quality material is not mixed up with it.
- h) Make an overall assessment of the value of the realization from the sale of scrap materials as to its reasonableness.

(iv) Borrowing from Banks:

- a) Borrowing from banks may be either in the form of overdraft limits or term loans. In each case, the borrowings should be verified as follows:
- b) Reconcile the balances in the overdraft or loan account with that shown in the pass books and confirm the last mentioned balance by obtaining a certificate from the bank showing the balance in the accounts as at the end of the year.
- c) Obtain a certificate from the bank showing the particulars of securities deposited with the bank as security for the loans or the charge created on an asset or assets of the concern and confirm that the same has been correctly disclosed and duly registered with Registrar of Companies and recorded in the Register of Charges.
- d) Verify the authority under which the loan or overdraft has been raised. In the case of a company, only the Board of Directors is authorized to raise a loan or borrow from a bank.
- e) Confirm, in the case of a company, that the provision contained in section 293 of the Companies Act, 1956 as regards the maximum amount of loan that the company can raise has not been contravened.
- f) Ascertain the purpose for which loan has been raised and the manner in which it has been utilized and that this has not prejudicially affected the concern.

PRIME ACADEMY
31ST SESSION PROGRESS TEST – LAW ETHICS & COMMUNICATION
QUESTION PAPER

No. of Pages: 3

Total Marks: 75
Time Allowed: 2Hrs
25 X 1 = 25 Marks

PART- A

1. The word company is defined under section of company act
 - a. 3(1) (i)
 - b. 3(2) (i)
 - c. (c) 2 (1)
 - d. (d) 4

2. Which of the following is the characteristic of company?
 - a. Separate legal entity
 - b. Perpetual succession
 - c. An artificial person
 - d. All of above

3. The case of "Solomon v Solomon & co. ltd." deals with:
 - a. Separate legal entity of company
 - b. Perpetual succession of a company
 - c. Common seal of a company
 - d. All of above

4. "Corporate veil" means:
 - a. Separate legal entity of company
 - b. Perpetual succession of the company
 - c. Common seal of a company
 - d. All of above

5. The minimum number of members of a private company is:--
 - a. 7
 - b. 1
 - c. 2
 - d. 50

6. The minimum number of members in a public company is:
 - a. 7
 - b. 1
 - c. 2
 - d. 50

7. The maximum number of members in of a private company is:
 - a. 7
 - b. 1
 - c. 2
 - d. 50

8. East India company is an example of:
 - a. Chartered company
 - b. Statutory company
 - c. Registered company
 - d. Government company

9. The minimum paid up capital for a private company is:
- Rs. 5, 00,000
 - Rs. 1, 00,000
 - Rs. 10, 00,000
 - Rs. Nil
10. The minimum paid up capital for a public company is:
- Rs. 5, 00,000
 - Rs. 1, 00,000
 - Rs. 10, 00,000
 - Rs. Nil
11. "The private company which is the subsidiary of a public company" is known as:
- Independent private company
 - Public company
 - Private company
 - Deemed public company
12. The minimum number of directors for a private company is:
- 3
 - 2
 - 1
 - 5
13. The minimum number of directors for a public company is:
- 3
 - 2
 - 1
 - 5
14. A company comes into existence:
- When its name is approved by ROC
 - On allotment of certificate of incorporation
 - On allotment of certificate to commence business
 - On delivery of MOA and AOA to ROC
15. Certificate of commencement of business is required only for
- Private company
 - Deemed public company
 - Public company without share capital
 - Public company having share capital
16. Promoter is:
- Agent of proposed company
 - Trustee of the proposed company
 - Quasi-agent of proposed company
 - None of above
17. The corporate veil can be lifted, when it is used:
- To defeat public convenience
 - To justify wrong
 - To protect fraud and crime
 - In all of above causes

18. The number of conditions, which are put in the articles of a private company, is;
- 2
 - 3
 - 4
 - 5
19. Company-H will be called the holding company of company-S, if the company –H;
- Controls the composition of BOD of company-S
 - Holds more than half of the equity shares, caring voting rights
 - Is the holding company of another company (say, company-S), which in turn is the holding Company of company-S
 - In any of above
20. Which company puts restriction on the transferability of its shares?
- Private company
 - Public company
 - Government company
 - All of above
21. The share holding of government in case of Government Company is:
- 40%
 - 51%
 - 50%
 - 60%
22. Contracts, which entered into, by agents or trustees on behalf of a prospective company before it has come into existence are called
- Provisional contracts
 - Preliminary or pre-incorporation contracts
 - Both (a) and (b)
 - None of the above
23. A private limited company which is holding 51 % in public limited company is
- Deemed Public limited company
 - Public limited company
 - Subsidiary company
 - Holding Company
24. Under the Companies Act, 1956 a company can be classified as
- Companies limited by shares
 - Companies limited by guarantee with or without share capital
 - Unlimited companies with or without share capital
 - All of the above
25. A promoter can be paid remuneration by way of:
- Lump sum by the company
 - Grant of some shares in the company
 - The article may provide for a fixed sum to be paid to him.
 - All of the above.

PART - B

Answer all the questions

10 x 5 = 50 Marks

1. "A company being an artificial person cannot be treated as a citizen under the constitution of India ".
Comment.
2. Strong Ltd had 8 members at the time of incorporation. Within two months, two of the members transferred their shares to one of the existing members. After 10 months, the company went into liquidation and creditors sought to recover the shares from the shareholders. The shareholders, having paid full value of shares accepted no liability. Advise the legal position of the company.
3. A company has a separate legal entity. Discuss with reference to decided case law.
4. Define Public Company. Reno Engineering Pvt. Limited 5, 00, 000 equity shares of Rs. 10 each fully paid up. Two shareholders holding 1,50, 000 equity shares each sold their shares to Upking Engineering Ltd @ 15 per share.

Define the status of Reno Engineering Pvt. Limited, whether it is private limited company or Public Limited Company.
5. When does a Public Company become a Private Company?
6. What do you mean by "Public Financial Institutions?"
7. What are the documents to be filed with Registrar of Companies for incorporation of a company?
8. "Certificate of incorporation is conclusive evidence "Comment.
9. Which Companies are required to obtain certificate of commencement of business?
10. What do you mean by provisional contracts?

PRIME ACADEMY
31ST SESSION PROGRESS TEST – LAW ETHICS & COMMUNICATION
SUGGESTED ANSWERS

PART – A

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

PART - B

1. Company is not a citizen:
 - a. As per our constitution and Citizenship act 1955, only the natural person can be the Citizens of India. So a Company cannot be a Citizen of India.
 - b. So, the fundamental rights under constitution, which are expressively available to the citizens of India, are not available to the company.
 - c. However, the Company can claim some the fundamental rights, which are available to all persons. For example, the right to own property, the right of equality

2. In this case, after transfer, there are only 6 members in the Company. As per sec 12(1), there must be at least 7 members in a public Company. So, if this Company continues to carry on its business for more than 6 months, then every Member of the Company, who has the knowledge of this fact, shall be personally responsible for the debts of the Company, incurred after 6 months. (sec.45)

3. Salomon v. Salomon & Co .Ltd. (1897)

Facts of case:	Mr. S was a prosperous leather merchant. He converted his business into a limited company. The company purchased the business of S for a consideration 38,782 pounds. The consideration was paid in terms of 10000 pounds secured debentures 20000 pounds fully paid up shares of 1 pound each and the balance in cash. His wife and five children took up one share of 1 pound each and remaining shares and debentures were taken by S. Later on, the company was wound up and its assets were found to be worth of 6000 pounds and its liabilities amounted to 17000 pounds of which 10000 were due S for debentures, which were secured and 7000 due to unsecured creditors. The unsecured creditors claimed that S and the company were the same person, because all the shares of the company were held by the S and his family. Hence they should be paid in priority to S.
Decision of the case.	Held, in the eyes of law, a company has a separate legal entity. S, and company cannot be treated as same person. It is magic of corporate personality that the same person can be insider and the same person can be the outsider at the same time. So S is entitled to have priority over the unsecured creditor, irrespective of the fact, almost all the shares of the company were held by Mr. S.

4. Public Company (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 Rs. 5,00,000 or higher paid up capital
 - c. is a private company and is a subsidiary of a Public Company

Reno engineering private limited becomes the subsidiary of a public Company. And the subsidiary of a public Company is treated as public Company. So, Reno engineering private limited is a public Company. Sec.3 (1) (iv)]

5. A public company may become a private company by adopting the following steps:
 - Alteration of articles: passing of special Resolution, authorizing the conversion and altering articles so as to contain the matters specified in sec.3 (1) (iii),
 - Change the name: Changing the name of the company by special resolution as Required by sec.21
 - Bring the number within the limits specified by 3(1)(iii), i.e. up to 50.
 - Approval of Central Government : obtaining the approval of the Central Government as required by sec.31; proviso to sec.31(1) provides that no alteration made in the articles which has the effect of

- converting a public company into a private company shall have effect unless such alteration has been approved by the central government
 - Filing the Documents with ROC - A printed copy of the altered articles along with special resolution within 1 month from the date of resolution.

6. The following financial Institutions shall be regarded as public financial institutions-
1. The Industrial credit and Investment corporation of India limited (ICICI)
 2. The Industrial finance corporation of India (IFCI)
 3. The Industrial development bank of India (IDBI)
 4. The life insurance corporation of India (LIC)
 5. The unit trust of India (UTI)
 6. The Infrastructure development finance company limited (IDFC)

Power of central Government [sec.4A (2)]: sec 4A (2) empowers the central government to be a public financial institution, if any other institution to be public financial institution, if any of the following two conditions are satisfied:-

- 1) If, it has been established under any central Act, or
 - 2) If, not less than 51 percent of the paid – up share capital of such an Institution is held or controlled by the central Government.
7. If the proposed name of the company is approved, then the following documents together with the necessary fees are to be filed. with the registrar:
- 1) MOA and AOA,
 - 2) The agreement, if any individual for his appointment as managing or whole-time director or manager
 - 3) In the case of public company having the share capital, a list of the first directors, and their written consent to act as directors and to take up qualification shares
 - 4) A declaration stating that all the requirements and formalities of the Companies Act, relating to registration have been complied with. Such declaration shall be signed by any of the following persons, viz.,
 - (a) An advocate of the Supreme Court or a High Court , or
 - (b) An Attorney or a pleader , entitled to appear before a High Court, or
 - (c) CS or CA in whole-time practice in India, who is engaged in the formation of the Company, or
 - (d) A person named in the Articles as a director, manager or secretary of the Company.
8. As per the Sec.35, the certificate of incorporation, issued by the Registrar, is conclusive evidence on the following points:
1. that all the requirements of the Companies Act, regarding the registration, have been duly complied with
 2. that the association is a company authorised to be registered under the act, and has been duly registered

Thus, once the Registrar issues the certificate of Incorporation, nothing is to be inquired into as to the regularity of the prior proceedings. The certificate cannot be disputed on any grounds whatsoever. It cannot be challenged even in cases-

- a. Where the Memorandum is altered after the signatories put their signatures on the Memorandum, but before it is registered with the Registrar, or
- b. Where the Memorandum is signed by only one person for all the 2 or 7 subscribers (as the case may be), or
- c. Where all the signatories are minors, or
- d. Where signatures to the Memorandum are forged

Jubilee Cotton Mills Ltd, v Lewis (1924)

Facts of Case	The Registrar issued the certificate of incorporation on 8 th January, but dated it as 6 th January instead of 8 th January. On 6 th January some shares were allotted to L. The question arose whether the allotment was void.
Decision of the case	Held, the certificate of incorporation is conclusive evidence that the company was formed on 6 th January and therefore, the allotment of shares was valid.

Even though the certificate of Incorporation is conclusive for the purpose of Incorporation, it does not make an illegal object a legal one.

9. Only a Public Limited company having share capital. In order to obtain this certificate, the company must comply with the Provisions of the section 149 (1) or (149(2) of the Company Act 1956.

10. **1) Meaning:-**

Provisional contracts entered into by a public Company after its incorporation, but before the issue of the certificate to commence business.

2) Legal Effect:-

According to Sec. 149(4), provisional contract shall not be binding on the Company, until the Company obtains the certificate to commence the business and on that date it shall automatically become the binding on the Company. If the Company is unable to obtain the certificate to commence business, the provisional contract automatically lapses.

3) All such Contracts are Binding:-

The words 'shall become binding' in sec. 149(4) do not mean that the Company is bound to recognize all provisional contracts. If a contract is oppressive, fraudulent or voidable for any reason, the Company may avoid it by taking appropriate proceedings.