

**PRIME ACADEMY**  
**32ND SESSION PROGRESS TEST - ADVANCED ACCOUNTING**

**No. of Pages: 8**

**Total Marks: 75**  
**Time Allowed: 2Hrs**

**Part – A**

1. Foreign branches may be classified into:
  - a. Integral foreign operations
  - b. Non-integral foreign operations
  - c. Both the above
  - d. None of the above
  
2. Generally if the operation is integral foreign operation the business is carried on
  - a. In foreign currency
  - b. In India Rupees
  - c. In the currency of the country where it is located
  - d. Multiple currencies
  
3. If production is made by a foreign country in foreign currency out of resources available in such country independent of the reporting enterprise is
  - a. Non-integral foreign operation
  - b. Integral foreign operation
  - c. Both the above
  - d. Company operation
  
4. Independent branches maintain
  - a. Comprehensive books of a accounts
  - b. Order books & transmits the order to Ho
  - c. Cash book and selected ledger, accounts
  - d. Only Cash remittance details.
  
5. When the goods are sent at invoice price, the entry for removal of loading being the difference between selling price and cost of goods is
  - a. Goods sent to Branch A/c Dr  
    To Branch A/c
  - b. Branch A/c Dr  
    To Goods sent to Branch
  - c. Stock Reserve A/c Dr  
    To Branch A/c
  - d. Branch A/c Dr  
    To Stock Reserve A/c

6. In case of independent branches the entry to be passed for payment of expenses by Ho is
- Expenses A/c Dr  
    To Bank A/c
  - Expenses A/c Dr  
    To Branch A/c
  - Branch Expenses A/c Dr  
    To Cash / Bank A/c
  - Expenses A/c Dr  
    To Head office A/c
7. Where the asset A/c is maintained at the Head office, entry to be made for providing depreciation on the assets of independent branch shall be
- Depreciation A/c Dr  
    To Fixed Asset A/c
  - Depreciation A/c Dr  
    To Branch A/c
  - Depreciation A/c Dr  
    To Head office A/c
  - Depreciation A/c Dr  
    To Profit & Loss A/c
8. If asset is carried at cost, cost and depreciation of tangible fixed assets is translated at
- Average rate
  - Closing rate
  - Opening rate
  - Exchange rate at the date of purchase of asset
9. Total interest on hire purchased goods is the difference between
- Hire-purchase purchase price and cash price
  - Hire-purchase price and down payment
  - Cash price and first instalment
  - None of the above
10. Depreciation on hire purchased asset is claimed by
- Hire vendor
  - Hire purchaser
  - Either the hire vendor or the hire purchaser as per the agreement between them
  - No depreciation is claimed till the last instalment is paid /received

11. Under instalment payment system, ownership of goods
  - a. Is transferred at the time of payment of last instalment
  - b. Is not transferred
  - c. Is transferred at the time of signing the contract
  - d. None of the above
  
12. The amount paid at the time of entering the hire-purchase transaction for the goods purchased is known as
  - a. Cash price
  - b. Down payment
  - c. First instalment
  - d. Hire purchase price
  
13. Closing balance of hire purchase stock represent
  - a. Instalment not yet due
  - b. Instalments due but not yet paid
  - c. Instalment due and paid
  - d. Total cost of the goods with customer
  
14. Closing balance of hire purchase debtors represent
  - a. Instalment not yet due
  - b. Instalments due but not yet paid
  - c. Instalment due and paid
  - d. Total cost of the goods with customer
  
15. When the hire purchase transactions are numerous and the value of the items are small, it is preferable to open
  - a. Memorandum hire purchase books
  - b. Shop Stock A/c
  - c. Hire purchase Stock A/c
  - d. Hire purchase Trading A/c
  
16. In case of Hire purchase under Stock & Debtors system the entry to create stock reserve on opening stock is
  - a. Hire purchase Adj A/c Dr.  
To Stock Reserve
  - b. Stock Reserve A/c Dr.  
To Goods sent on HP A/c
  - c. HP Stock A/c Dr.  
To Stock Reserve A/c
  - d. Stock Reserve A/c Dr.  
To Hire purchase Adj A/c

17. Under Stock & Debtors System when instalments become due for payment, the entry to be passed will be
- HP Stock A/c Dr.  
To HP debtors A/c
  - Cash A/c Dr.  
To HP debtors A/c
  - HP debtors A/c Dr.  
To HP Stock A/c
  - HP Stock A/c Dr.  
To Cash A/c
18. In the books of hire purchaser when the repossessed value is less than the book value the difference is transferred to the P & L as
- Loss on Surrender
  - Profit on Surrender
  - HP Stock
  - None
19. In case of repossession the hire vendor closes Hire purchaser A/c in his books by transferring the balance of Hire purchaser A/c to ----- account
- Hire purchaser A/c
  - HP Assets A/c
  - Hire vendor A/c
  - Goods repossessed A/c
20. Under Debtors method all down payments and instalments falling due are credited to hire purchase sales A/c. Balance in hire purchase sales A/c is transferred to HP Trading A/c
- True statement
  - False
  - Partly true
  - Can't say
21. V Ltd deals in computers and the following particulars are extracted.  
Computers lying with the Hire purchaser at Invoice price ` 13,13,750  
Cost per computer ` 14,000  
Cash price per computer ` 15,500  
Invoice price per computer ` 16,800  
Calculate the stock reserve to be created.
- 1,01,659
  - 2,18,958
  - 1,500
  - 2,800

22. Under sales method of HP accounting
- The entire profit on sale under hire purchase agreement is credited to the profit & loss A/c of the year in which the sales has taken place
  - The entire profit on sale under hire purchase agreement is credited to the profit & loss A/c of the year in which the purchase has taken place.
  - The entire profit on sale under hire purchase agreement is credited to the profit & loss A/c of the year in which the collection has taken place.
  - The entire profit on sale under hire purchase agreement is credited to the profit & loss A/c of the year in which the sales has not taken place
23. Under sales method of HP accounting
- Interest of the whole hire purchase period is credited to the profit & loss Account in the year of sales
  - Interest pertaining to each accounting period is credited to the profit & loss Account of that year.
  - Interest is recognized on receipt basis
  - None of the above
24. Depreciation on asset acquired on hire purchase must be calculated on
- Cash price.
  - Hire purchase price
  - Cost
  - Fair value
25. In the books of hire purchaser, under interest suspense method, the balance in the interest suspense A/c representing the remaining amount not transferred to the interest A/c appears
- In the credit side of profit & loss A/c.
  - In the debit side of profit & loss A/c
  - In the liabilities side of the balance sheet
  - In the assets side of balance sheet

**(25x1=25 Marks)**

**Part – B**

1. Jumbo Ltd Chennai has a branch at Srinagar to which goods are sent @20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from Ho and partly by the branch. The statement of expenses incurred by the branch every month is sent to Ho for recording. Following further details are given for the Year ended 31<sup>st</sup> March 2010.  
Cost of goods sent to branch at cost – `1,00,000  
Goods received by branch till 31-03-2010 at Invoice price – `1,10,000  
Credit sales for the year 2009-2010 @ Invoice Price – `82,500  
Cash sales for the Year 2009-10 @ Invoice Price – `29,500

Cash remitted to Ho -----→ 1,11,250

Expenses paid by Ho -----→ 6,000

Bad debts written off -----→ 375

Balance as on	1-4-09	31-3-10
Stock	12500(cost)	14000 (IP)
Debtors	16375	13000
Cash in hand	2500	1250

Show the branch A/c in the books of the Head office under double column method.

**(10 Marks)**

2. C Inc. has head office at New York (U.S.A.) and branch at Mumbai (India).  
Mumbai branch is an integral foreign operation of C Ltd.

Mumbai branch furnishes you with its trial balance as on 31<sup>st</sup> March, 2008 and the additional information given thereafter:

Particulars	Dr.	Cr.
	₹ in thousands	₹ in thousands
Stock on 1 <sup>st</sup> April, 2007	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	----	1,620
	3,360	3,360

**Additional information:**

- 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.
- Unsold stock of Mumbai branch was worth ₹ 4,20,000 on 31<sup>st</sup> March, 2008.
- The rates of exchange may be taken as follows:
  - \* on 1.4.2007 @ ₹ 40 per US \$
  - \* on 31.3.2008 @ ₹ 42 per US \$
  - \* average exchange rate for the year @ ₹ 41 per US \$
  - \* conversion in \$ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31<sup>st</sup> March, 2008 and the balance sheet as on that date of Mumbai branch as would appear in the books of New York head office of C Ltd. You are informed that Mumbai branch account showed a debit balance of US \$ 39609.18 on 31.3.2008 in New York books and there were no items pending reconciliation.

**(16 Marks)**

3. MP Agencies started business on 1<sup>st</sup> April 2005. During the year ended 31<sup>st</sup> March 2006, they sold under-mentioned durables under two schemes – Cash Price Scheme (CPS) and Hire-Purchase Scheme (HPS).

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

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

The following are the details available at the end of 31<sup>st</sup> March 2006 with regards to the products:

	<b>Television</b>	<b>Washing machine</b>
No of units Purchased	90	70
No of units Sold under CPS	20	20
No of units Sold under HPS	60	40
Cost per unit	`16,000	`12,000
No of Installments due during the year	1080	840
No of Installments received during the year	1000	800

The following were the expenses during the year:

Rent	1,20,000
Salaries	1,44,000
Commission to Salesmen	12,000
Office expenses	1,20,000

From the above information you are required to prepare:

- a. Hire-purchase Trading Account
- b. Trading and Profit & Loss Account

**(16 Marks)**

4. A acquired on 1<sup>st</sup> January 2006 a machine under a Hire-Purchase agreement which provides for 5 half-yearly installments of `6000 each, the first installment being due on 1<sup>st</sup> July 2006. Assuming that the applicable rate of interest is 10% P.a., calculate the cash value of the machine. All working should form part of the answer.

**(8 Marks)**



**PRIME ACADEMY  
32ND SESSION PROGRESS TEST - ADVANCED ACCOUNTING  
SUGGESTED ANSWERS**

**PART - A**

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

**PART – B**

1.

**Jumbo Limited  
Srinagar Branch Account**

Particulars	Invoice Price ₹	Cost ₹	Particulars	Invoice Price ₹	Cost ₹
To Balance b/d			By Cash sales	29,500	29,500
Opening stock	15,000	12,500	By Credit sales	82,500	82,500
To goods sent to Branch A/c	1,20,000	1,00,000	By balance c/d		
To stock adj A/c	1,000	833	Closing stock	24,000	20,000
To gross profit transferred to P&L A/c		18,667			
	<b>1,36,000</b>	<b>1,32,000</b>		<b>1,36,000</b>	<b>1,32,000</b>

Gross Profit= ₹1,12,000\*20/120=₹18,667

2. **C Inc. Mumbai Branch Trading and profit & Loss Account for the Year ended 31<sup>st</sup> Mach,2008 (In US \$)**

To Opening stock	7500.00	By Sales	29268.29
To Purchases	19512.20	By Closing Stock	10000.00
To Wages and salaries	13658.54	By Gross loss c/d	1402.45
	<b>40670.74</b>		<b>40670.74</b>
To Gross Loss b/d	1402.45	By Net Loss	17685.38
To Rent, Rates and taxes	8780.49		
To Sundry Charges	3902.44		
To Depreciation on computers (Us \$ 6000 x 0.6)	3600.00		
	<b>17685.38</b>		<b>17685.38</b>

**Balance Sheet of Mumbai Branch as on 31<sup>st</sup> March, 2008**

<b>Liabilities</b>	<b>US\$</b>	<b>US\$</b>	<b>Assets</b>	<b>US\$</b>	<b>US\$</b>
New York office A/c	39609.18		Computers	6000	
Less : Net Loss	<u>17685.38</u>	21923.80	Less: Depreciation	3600	2400.00
Sundry creditors		7142.86	Closing Stock	—	
Bills Payable		5714.29	Sundry debtors		10000.00
			Bank balance		9523.81
			Bills receivable		10000.00
					2857.14
		<u><b>34780.95</b></u>			<u><b>34780.95</b></u>

3.

**In the books of MP Agencies  
Hire Purchase Trading Account for the year ending 31<sup>st</sup> March 2006**

<b>Particulars</b>	<b>₹</b>	<b>₹</b>	<b>Particulars</b>	<b>₹</b>	<b>₹</b>
To Goods sold on HP A/c	18,00,000		By Bank A/c		
TV (60 x Rs.30000)	<u>9,00,000</u>	27,00,000	TV (1000 x Rs. 1000)	10,00,000	16,00,000
WM (40 x Rs. 22500)		4,62,000	WM (800 x Rs. 750)	<u>6,00,000</u>	
To HP stock reserve		7,98,000	By installment due A/c		
Rs. 990000 x 87.5/187.5			TV (80 x Rs. 1000)	80,000	
To Profit & Loss A/c (HP profit transferred)			WM (40 x Rs. 750)	<u>30,000</u>	1,10,000
			By goods sold on HP A/c (cancellation of loading)		12,60,000
			Rs.2700000 x 87.5/187.5		9,90,000
		<u><b>39,60,000</b></u>	By HP stock (W.N.:2)		<u><b>39,60,000</b></u>

**Trading and Profit & Loss Account for the year ending 31<sup>st</sup> March 2006**

Particulars	₹	₹	Particulars	₹	₹
To Purchases A/c	14,40,000		By Sales A/c		
TV (90 x Rs.16000)	<u>8,40,000</u>	22,80,000	TV (20 x Rs. 20000)	4,00,000	
WM (70 x Rs. 12000)		1,40,000	WM (20 x Rs. 15000)	<u>3,00,000</u>	7,00,000
To Gross Profit c/d			By goods sold on HP A/c(2700000 – 1260000)		14,40,000
		<u>24,20,000</u>	By Stock (W.N.:3)		<u>2,80,000</u>
					<u>24,20,000</u>
To Salaries		1,44,000	By Gross profit b/d		1,40,000
To Rent		1,20,000	By HP trading A/c		7,98,000
To Commission		12,000			
To Office expenses		1,20,000			
To Net Profyt		<u>5,42,000</u>			
		<u>9,38,000</u>			<u>9,38,000</u>

**Working Notes:**

**(1) Calculation of per unit cash price; HP price; and installment amount:**

	<b>TV</b> ₹	<b>Washing Machine</b> ₹
Cost	16,000	12,000
Cost Price ` (Cost x 1.25)	20,000	15,000
HP price ` (cash price x 1.50)	30,000	22,500
Installment Amount (HP price / No. of installments)	1,000	750

**(2) Calculation of HP stock as on 31<sup>st</sup> March 2006:**

	<b>TV</b>	<b>Washing Machine</b>
Total no of installments (Nos)	1,800	1,200
Installment due in 2005-06 (Nos)	1,080	840
Installment not due in 2005-06 (Nos)	720	360

Amount ` ₹7,20,000 ₹2,70,000  
 Total HP stock (₹720000 + ₹270000) = ₹990000

**(3) Calculation of shop stock as on 31<sup>st</sup> March 2006:**

	TV ₹	Washing Machine ₹
Purchased (Nos)	90	70
Sold (Nos)	80	60
Balance (Nos)	10	10
Amount `	1,60,000	1,20,000

Total Shop stock (₹160000 + ₹120000) = ₹280000

4. Statement showing cash value of the machine acquired on HP basis

	Installment ₹	Interest @ 5% ₹	Principal ₹
5 <sup>th</sup> Installment	6000	286 *	5714
Less: Interest	<u>(286)</u>		
	5714		
Add: 4 <sup>th</sup> Installment	<u>6000</u>		
	11714	558**	5442
Less: Interest	<u>(558)</u>		(11156-5714)
	11156		
Add: 3 <sup>rd</sup> Installment	<u>6000</u>		
	17156	817***	5183
Less: Interest	<u>(817)</u>		(16339 - 11156)
	16339		
Add: 2 <sup>nd</sup> Installment	<u>6000</u>		
	22339	1063	4937
Less: Interest	<u>(1063)</u>		(21276 - 16339)
	21276		
Add: 1 <sup>st</sup> Installment	<u>6000</u>		
	27276	1299	4701
Less: Interest	<u>(1299)</u>		(25977 - 21276)
	<u>25977</u>	<u>4023</u>	<u>25977</u>

\* 6000 X 5/105 = 286

\*\* 11714 X 5/105 = 558

\*\*\* 17156 X 5/105 = 817 (similarly calculations made in other cases)

Therefore the cash price of the machinery is ₹25,977/-

Therefore the cash price of the machinery is calculations made in other cases

**PRIME ACADEMY  
32ND SESSION PROGRESS TEST – AUDITING & ASSURANCE**

**No. of Pages: 6**

**Total Marks: 75  
Time Allowed: 2Hrs**

**PART- A**

**Choose the correct answer**

1. After testing a client's internal control activities, an auditor discovers a number of significant deficiencies in the operation of a client's internal controls. Under these circumstances the auditor most likely would
  - a. Issue a disclaimer of opinion about the internal controls as part of the auditor's report.
  - b. Increase the assessment of control risk and increase the extent of substantive tests.
  - c. Issue a qualified opinion of this finding as part of the auditor's report.
  - d. Withdraw from the audit because the internal controls are ineffective.
  
2. Which of the following audit techniques would most likely provide an auditor with the most assurance about the effectiveness of internal control?
  - a. Inquiry of client personnel
  - b. Recomputation of account balance amounts
  - c. Observations of client personnel
  - d. Confirmation with outside parties
  
3. When an auditor tests the internal controls of a computerized accounting system, which of the following is true of the test data approach?
  - a. Test data are coded to a dummy subsidiary so they can be extracted from the system under actual Operating conditions
  - b. Test data programs need not be tailor-made by the auditor for each client's computer applications
  - c. Test data programs usually consist of all possible valid and invalid conditions regarding compliance with internal controls
  - d. Test data are processed with the client's computer and the results are compared with the auditor's predetermined results.

4. One of the company's internal controls requires that shipping documents be matched with the invoice raised on customer. To which of the following is that control relevant?
  - a. The completeness assertion for revenue
  - b. The existence assertion for inventory
  - c. The occurrence assertion for purchases
  - d. The presentation and disclosure assertion for accounts receivables.
  
5. Which of the following essential points to be borne in mind by the auditor while examining a voucher?
  - a. The vouched should be dated and the date of the voucher should not fall within the accounting period
  - b. The voucher should be made out in the third parties name
  - c. The voucher should be duly authorized
  - d. The amount of voucher should not reflect in any of the account of the client.
  
6. The advertisement contract is vouched in order to see that
  - a. Outstanding advertising expenses have been properly accounted for as a liability
  - b. There is a regular contract with the advertising agency
  - c. The actual expenditure matches with the budgeted ones
  - d. The statement of account has been collected from the advertising agency and it contains the name of advertising media and amount debited to the client.
  
7. While vouching wages, auditor should examine whether there is proper segregation of duties. Which of the following activities should not be done by same department?
  - a. Maintaining personnel records and approving changing in wages rates
  - b. Proposing pay roll summary and disbursement of wages
  - c. Making salary statements and filing tax returns
  - d. Comparing time clock records with time reports prepared by supervisors and preparing list of workers employed along with the units of production for each one of them.
  
8. In order to vouch, which of the expenses, the auditor will examine Bill of Entry?
  - a. Custom
  - b. Excise duties
  - c. Sales tax
  - d. Income tax
  
9. Which of the following is not a universal rule for keeping strong internal control over cash?
  - a. Separate cash handling and record keeping
  - b. Decentralize the receipt of cash as much as possible
  - c. Deposit each day's cash receipts by the end of the day
  - d. Have bank reconciliation performed by employee's independent with respect to handling cash.

10. A major responsibility of internal auditor is to
- Install sound accounting, financial and operating controls at reasonable cost
  - Ascertain the extent of entity compliance with established policies, plans and procedures
  - Account for the entity's assets and safeguard them from losses
  - Develop reliable management data.
11. Overall analysis of income statement accounts may reveal errors, omissions, and inconsistencies not disclosed in the overall analysis of balance sheet accounts. The income statement analysis can best be accomplished by comparing monthly
- Income statement ratios with balance sheet ratios
  - Revenue and expense account balances with the monthly reported net income
  - Income statement ratios with published industry averages
  - Revenue and expense account totals with the corresponding figures for the preceding years.
12. The auditor is concerned that fictitious sales have been recorded. The best audit procedure to identify the existence of the fictitious sales would be to
- Select a sample of recorded invoices and trace to shipping documents (bills of lading and packing slips) to verify shipment of goods
  - Select a random sample of shipping documents (bills of lading) and trace to the invoice to determine whether the invoice was properly recorded
  - Select a sample of customer purchase orders and trace through to the generation of a sales invoice
  - Select a sample of invoices and trace to a customer purchase order to determine whether a valid customer actually exists.
13. An auditor is testing sales transactions. One step is to trace a sample of debit entries from the accounts receivable subsidiary ledger back to the supporting sales invoices. What would the auditor intend to establish by this step?
- The sales invoices represent *bona fide* sales
  - All sales have been recorded
  - All sales invoices have been properly posted to customer accounts
  - Sales invoices properly support debit entries in the accounts receivable subsidiary ledger.
14. Internal control over cash receipts is weakened when an employee who receives customer mail receipts also
- Prepares initial cash receipts records
  - Records credits to individual accounts receivable
  - Prepares bank deposit slips for all mail receipts
  - Maintains a petty cash fund



15. For internal control purposes, which of the following individuals should be responsible for distributing payroll cheques?
- Book keeper
  - Payroll Clerk
  - Cashier
  - Receptionist
16. Which of the following sets of duties would ordinarily be considered incompatible with good internal control if performed by the same individual?
- Preparation of monthly statements to customers and maintenance of the accounts receivable subsidiary ledger
  - Posting to the general ledger and approval of additions and terminations relating to the payroll
  - Custody of unclaimed signed cheques and maintenance of expense subsidiary ledgers
  - Collection of receipts on account and maintaining accounts receivable records.
17. For effective internal control, billing should be done by the
- Accounting department
  - Sales department
  - Shipping department
  - Credit and collection department
18. 'Goods sent on approval basis' have been recorded as 'Credit sales'. This is an example of
- Error of principle
  - Error of commission
  - Error of omission
  - Error of duplication
19. Who is responsible for the appointment of statutory auditor of a limited company?
- Directors of the company
  - Members of the company
  - The Central Government
  - All of the above
20. Which of the following sections deal with qualifications of the auditor?
- Section 226 (1) and section 226(2)
  - Section 224 (1) and section 224 (2)
  - Section 226 (3) and section 226(4)
  - Section 224(3) & Sec.224

21. Which of the following statement is not true?
- A partnership firm can be appointed as a statutory auditor of limited company
  - Appointment can be made in the name of the firm
  - Majority of the partners should be practicing in India
  - All partners should be chartered accountants
22. As per the requirements of section 226(3) and 226(4) a person is disqualified from being appointed as a statutory auditor if he holds
- Equity shares or debentures of the company
  - Equity shares carrying voting of the company
  - Shares carrying voting rights of the company
  - Security carrying voting rights of the company
23. Which of the following statement is not distinguishing feature for computer based processing and manual processing?
- Errors in a CIS environment are less systemic as compared to errors in manual processing
  - The potential for human error in the CIS environment is greater as compared to manual system
  - In a computer based accounting system, audit trail is in electronic form
  - Computer processing offers management a variety of analytical tools.
24. General controls will be ineffective when EDP department
- Participates in computer software acquisition decisions
  - Design Documentation for computerized operations
  - Originate changes in master files
  - Provide physical security for programme files.
25. Which of the following documents is not relevant for vouching cash sales?
- Daily cash sales summary
  - Salesmen's summary
  - Monthly statements sent to customers
  - Bank statement

**(25x1=25 Marks)**

## **PART-B**

Answer any **five** questions

1. Write short notes on
  - a. Vouching of Advertisement Expenses
  - b. Vouching and verification of sale of assets.

**(2x5=10Marks)**
  
2. a. What is EDP Audit  
b. What do you understand by
  - (i) Auditing around the computer
  - (ii) Auditing through the computer

**(2+2x4=10Marks)**
  
3. What are the methods of appointment of Auditors under Section 224 and 224A of the Companies Act, 1956?

**(10 Marks)**
  
4. What are the rights and duties of the auditors of a company?

**(10 Marks)**
  
5. Write short notes on
  - a. Vouching of Preliminary Expenses
  - b. Control Risk

**(2x5=10 Marks)**
  
6. What are EDP controls. Explain them.

**(10 Marks)**

**PRIME ACADEMY  
32ND SESSION PROGRESS TEST – AUDITING & ASSURANCE  
SUGGESTED ANSWERS**

**PART - A**

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

## PART B

1.

a.

Advertisement is necessary for various purposes and there are several advertisement media :

S.No.	Documents to be vouched	Aspects to be verified
1.	Advertisement Schedule / Register	i) Acquire the complete list of media of advertisement, showing the dates, exact location, timings etc. along with amount paid in respect of each category ii) Verify that it relates to the client's business iii) Compare the actual expenditure with budget, if any, study the causes of deviations in it
2.	Advertisement Contract	i) See whether there is a regular contract with the advertising agency ii) Note the discounts, if any
3.	Bills and Statement of account	i) See that the statement of account has been collected from the advertising agency and it contains the name of advertising media and amount debited to the client. ii) Discounts, if any, should be properly adjusted in the bills
4.	Payment Vouchers	i) Verify that the payments are supported by bills ii) Check the receipts for amounts iii) Trace the payment cheque into the Bank statement iv) Verify that the tax has been deducted at source
5.	General Ledger and financial statement	i) Ascertain whether allocation has been done properly (i..e) capital deferred revenue or revenue ii) See that outstanding advertising expenses have been properly accounted for as a liability

b.

S.No.	Documents to be vouched	Aspects to be verified
1.	Minutes book or Resolutions	Check requisite sanction for sale of assets, manner of sale, the party to whom it should be sold, consideration, etc.
2.	Correspondence, agreements, etc.	(i) Ascertain the sale proceeds through proper evidence, e.g. correspondence, agreement to sell, etc. (ii) Confirm whether the proceeds are at reasonable market value
3.	Repair voucher and bank statement	(i) Check that the amount shown as received is the actual sales price of the asset less any expenditure incurred has been deducted (ii) Trace the receipt of sale consideration into the bank statements
4.	General Ledger	Ensure credit to asset account and not to sales account
5.	Journal Voucher	(i) Ensure capital - revenue distinction in case of profits arising from disposal (ii) Ensure appropriate accounting treatment in case the asset had been revalued earlier using a reevaluation reserve.

2.

a. EDP Audit is the process of auditing in a computerized environment. The use of computer changes the processing and storage of financial information and may affect the organization and procedures employed by the entity to achieve adequate internal control. Accordingly the procedures adopted by the auditor in his study and evaluation of accounting system and related internal controls and the nature, timing and extent of his other audit procedures may be affected by an EDP environment.

b.

(i) **Auditing around the computer:**

- i. Audit around the computer helps in forming of an audit opinion where in the existence of computer is not taken into account.
- ii. Under this approach, computers are treated as mechanical book keeping aids.
- iii. The focus of audit is to take 'voluminous reports and output and compare the 'input vouchers' with "system outputs" to obtain audit assurance.
- iv. Computers are only considered as systems which provide legible printouts of the transactions; Auditors trace transactions to the "black box" and pick up the trail on the other side by examining printouts.
- v. No regard is paid to the transformation of data that takes place inside the computer.

- vi. The main advantage around the computer is its simplicity because it uses generalised software that is well tested and is widely used.
- vii. Some of the disadvantages of the system of auditing around the computers are:-
  - a. It is not beneficial for complex system of large scale in which large multi unit, multi locations enter unit transactions takes place. It can be used only in case of small organisations having simple operations.
  - b. It is not possible for the auditor to assess the degradation in the system in case of change in environment, and whether the system can cope with a changed environment.

**(ii) Auditing through the computer:**

- i. The auditor takes the computer as a target of audit. It is treated as a live and dynamic device, which has added value to the process of auditing.
- ii. He can use the computer to test:
  - a. The program logics and program controls existing within the system, &
  - b. The records produced by them.

**(iii) Methods:** There are three methods of auditing through the computer [i.e. testing the systems, can be done in three ways,:

- a. **Test data:** This is a special set of input data, prepared specifically to test a programme or set programs of the entity under audit.
- b. **Controlled processing:** This means that a processing run is undertaken using a already tested programme under the control of the auditor.
- c. **Computer audit programme:** The auditor uses computer programmes for (i) testing and evaluating the system if internal control and (ii) validity of transactions processed by an electronic data processing system.  
Once, the auditor is satisfied with the computer system & its controls, he need not have to spend much time on detailed verification.

**(iv) Situations where it must be used:**

It is used if:

- a. The computer processes a large volume of output and resultantly produces a large volume of output (because in that situation, it is difficult to make extensive direct examination of the validity of the input & output.)
- b. The significant parts of the internal control system are embodied in the computer system itself, (e.g. on line banking,)
- c. The logic of the system is complex.
- d. Because of cost— benefit considerations, there are substantial gaps in the visible audit trail.

(v) **Advantages:**

- a. Auditor has increased power to effectively test a computer system.
- b. The range & capability of tests to be performed increases
- c. He acquires greater confidence that the data processing is correct.

(vi) **Disadvantage:**

- a. Highly expensive ;
- b. Need for extensive technical expertise when the logics within the system are complex. When, auditing through computer is the only viable mode of auditing, then there is no meaning to look at its disadvantage. That is to say, it should be ignored.

3.

### **Method of Appointment of Auditors**

The provisions relating to the appointment of auditor are contained in Sections 224 and 1224A of the Companies Act,1956. The provisions with regard to the appointment of an auditor can be divided into three categories:

- i. Appointment of first auditor;
- ii. Appointment of subsequent auditor;
- iii. Appointment by filling of casual vacancy.

### **Appointment of First Auditors**

Section 224(5) provides that the first auditor or auditors are to be appointed by the Board of directors within one month of the date of the registration of the company. It is further provided that if the Board of directors fails to appoint the first auditors within one month of its incorporation, the company in general meeting may appoint the first auditors. Further, the appointment of auditor is mandatory in the annual general meeting for the ensuing year.

Appointment of the first auditors should be by a valid resolution at the Board meeting. If they are named in the Articles of the company, it will not be recognised as appointment under the Companies Act.

It may be noted that the first auditors are not required to inform the ROC about the acceptance or refusal of the appointment.

The first auditor or auditors so appointed are to hold office until the conclusion of the first annual general meeting of the company. However, the auditor(s) so appointed may be removed earlier if the company at a general meeting appoints another auditor, of whose



nomination, notice has been given by any member to the members at least 14 days before such meeting.

### **Subsequent Appointment of Auditors**

Section 224 (1) provides that every company must appoint an auditor or auditors at each annual general meeting to hold office from the conclusion of that annual general meeting until the conclusion of the next annual general meeting, and must, within 7 days of the appointment, give intimation thereof to the auditors so appointed.

As per section 224(1A), every auditor so appointed must, within 30 days of the receipt from the company of the intimation of his appointment, inform the Registrar in writing in Form No. 23B that he has accepted the appointment or refused it.

It is, however, necessary for every company before making an appointment or re-appointment of an auditor or auditors to obtain from the auditor or auditors proposed to be appointed a certificate to the effect that the appointment or re-appointment, if made, will be in accordance with the limits on the number of audits specified in section 224(1B).

Further, as per Clause 8 of Part I of First Schedule to the Chartered Accountants Act, 1949, a member in practice shall be guilty of professional misconduct, "If he accepts a position as auditor previously held by another chartered accountant (or a restricted state auditor) without first communicating with him in writing".

The objective of this clause is to know the reasons why the previous auditor has been changed. Professional courtesy is also one reason to communicate. However, if the retiring auditor fails, without sufficient cause, to respond to the communication, the new auditor may accept the work after waiting for a reasonable time. Further, auditor appointed under section 233A is not required to communicate with the predecessor.

### **Re-appointment of Auditors**

Section 224(2) states that subject to sub-section (1B), with regard to the ceiling of 20 companies, and section 224A, regarding appointment of auditors by special resolution in certain cases, at any annual general meeting, a retiring auditor, by whatsoever authority appointed shall be re-appointed unless:

- a. He is not qualified for re-appointment;
- b. He has given to the company notice in writing of his unwillingness to be reappointed;
- c. A resolution has been passed at that meeting appointing somebody instead of him or providing expressly that he shall not be re-appointed; or
- d. Where notice has been given of an intended resolution to appoint some person or persons in the place of a retiring auditor, but owing to that persons death, incapacity or disqualification, the resolution cannot be proceeded with and so must be dropped.

## **Appointment of Auditor other than a Retiring Auditor (Section 225)**

Section 224(2) provides that the retiring auditor shall be re-appointed unless any of the circumstances specified in clauses (a) to (d) thereof exists. Neither the Board of directors nor the company in general meeting has the power to refuse re-appointment of the retiring auditor, except for the circumstances mentioned in clauses (a) to (d) of sub section (2). It is, however, to be noted that the re-appointment of existing auditor is not automatic as there must be an act of the of the company re-appointing him by passing a resolution. Where the retiring auditor is not to re-appointed and a person other than him is proposed to be appointed as an auditor, a notice has to be given proposing that such a resolution would be moved at annual general meeting. On receipt of the special notice, the company should send a copy thereof to the retiring auditor. Non-compliance with the provisions of the section 225 as to special notice would render, a resolution illegal and ineffective.

## **Filling Casual Vacancy**

Section 224 (6) provides that the casual vacancy in the office of auditor may be filled by the Board. But where the vacancy is caused by resignation of auditor, such vacancy shall only be filled by the company in a general meeting. The remaining auditor or auditors may act notwithstanding the casual vacancy. The auditor appointed in the casual vacancy holds office till the conclusion of the next annual general meeting. Thus, it may be implied:

- i. Refusal of a person to accept appointment as an auditor is not casual vacancy and only the shareholders at the general meeting can make appointment. The board does not have the power to fill such vacancy even if so authorised by the shareholders;
- ii. Vacancy caused by the resignation of an auditor during the tenure of his appointment shall only be filled by the company at its general meeting;
- iii. Except for the circumstances mentioned in (i) and (ii) above, the BOD may fill the casual vacancy

## **Power of the Central Government to Appoint Auditors**

If no auditors are appointed or re-appointed at the annual general meeting, the Central Government may appoint a person to fill the vacancy [Section 224 (3)]. The company is required to give within one week notice to the Central Government that the power has become exercisable. If a company fails to give such notice, then the company and every officer the company who is in default shall be punishable with fine upto Rs. 5,000.

## **Appointment of Auditors by Special Resolution**

Section 224A provides that in the case of company in which not less than 25% of the subscribed share capital is held, whether singly or in any combination by:

- a. a public financial institution or Government company or Central Government or any State Government; or
- b. any financial, or other institution established by any Provincial or State Act in which State Government holds not less than 51% of the subscribed share capital; or
- c. a nationalised bank or an insurance company carrying on general insurance business;

The appointment or re-appointment at each annual general meeting, of an auditor or auditors, shall be made by a special resolution.

Where any such company as mentioned above fails to pass at its annual general meeting any special resolution appointing an auditor or auditors, it shall be deemed that no auditor or auditors had been appointed by the company at its annual general meeting and the Central Government may appoint auditors to fill the vacancy.

4.

#### **Right and Powers of Auditors**

The various rights and powers enjoyed by the auditors under the Companies Act, 1956 as follows:

- (i) *Right to access to books, accounts. and vouchers:* The auditor of a company shall have right of access, at all times; to the books, accounts and vouchers of the company, whether kept at the head office of the company or elsewhere [Section 227(1)]. The auditor shall also have access to books of account containing cost data which, under section 209(1)(d), the Central Government requires certain classes of companies to include in its accounts, in respect of utilisation of material, labour or other terms or costs.

The term 'vouchers' includes, in addition to vouchers of sales, purchases, receipts and payments all documents, correspondence, agreements, etc. which may in any way serve to vouch for the accuracy of the books and accounts. The term books includes the financial, statutory and statistical books.

- (ii) *Right to obtain information and explanation:* The auditor shall be entitled to require from the officers of the company such information and explanation as he thinks necessary for the performance of his duties as auditor [Section 227(1)]. The Articles of a company cannot: preclude the auditor team from availing himself of any information which is material to enable him to make his report and from fulfilling his statutory duties to the shareholders [Newton. v: Birmingham Small Arms Co.]

- (iii) *Right to sign the audit report:* Only the person appointed as an auditor of the company, or where a firm is so appointed, only a partner in the firm practising in India, may sign the auditors' report, or sign or authenticate any other document of the company which is required by the law to be so signed or authenticated by the auditor [Section 229]. In *Re Allen Craig & Co. (London) Ltd.* case, it was held that the duty of the auditors, after having signed the report to be annexed to a balance sheet, is confined only to forwarding that report to the secretary of the company. It will be for the secretary or the directors to convene a general meeting and send the balance sheet and report to the members or other persons who are entitled to receive it.
- (iv) *Right to receive notice of and attend General Meeting:* The auditors have the right to attend any general meeting and to receive any notice and other communications relating thereto which members are entitled to receive and be heard at any general meeting on *any* part of the business which concerns them as auditors [Section 231].
- (v) *Right to visit branch office and right of access to books:* Where the accounts of any branch office are audited by a person other than the company's auditor, the company's auditor (a) shall be entitled to visit the branch office, if he deems it necessary to do so for performance of his has duties as auditor and (b) shall have a right of access at all times to the books and accounts and vouchers of the company maintained at the branch office. In the case of a banking company having a branch office situated outside India, it shall be sufficient if the auditor is allowed access to such copies of and extracts from the books and accounts of the branch as has been transmitted to the principal office of the company in India [Section 228].
- (vi) *Right to receive remuneration:* The auditor shall have the right to receive remuneration for auditing the accounts of the company [Section 224(8)].
- (vii) *Right to lien:* The auditor can exercise lien over the books and documents placed at his possession by the client for non payment of fees, subject to the following conditions:
- the documents must belong to the client who owes money;
  - these have come into his possession only on the authority of the client and not through illegal or irregular means;
  - the auditor must have done work on the documents in respect of fees is due;
  - only so much of the documents can be retained on which fees has not been paid.

*The rights of an auditor cannot be limited or abridged either by the Articles or by **any** resolution of the members (Newton v Birmingham Small Arms Co. Ltd.)*

## **Duties of Auditors**

i. *Report to members:*

Section 227 (IA) requires an auditor to enquire:

- a. Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the company or its members;
- b. Whether the transactions of the company which are represented merely by book entries are not prejudicial to the interests of the company;
- c. Where the company is not an investment or a banking company, whether so much of the assets, of the company as consists of shares, debentures, and other securities have been sold at a price less than that at which they were purchased by the company;
- d. Whether the loans and advances made by the company have been shown as deposits;
- e. Whether personal expenses have been charged to revenue accounts;
- f. Whether cash has actually been received in respect of any shares shown in the books to have been allotted for cash; -
- g. Whether the position as stated in the books is correct, regular and is not misleading.

Under Section 227(2), it is the duty of the auditor to make a report to the members of the company on the accounts examined by him and on every balance sheet, every profit and loss account and on every other document declared by the Act to be part of or annexed to the balance sheet or profit and loss account and laid before the company in general meeting during his tenure of office.

5.

a.

The expenses incidental to forming and saving capital for a proposed company are known as preliminary expenses. Prospectus, Memorandum of Association, Articles of Association are source documents which inform the prospective investors about the preliminary expenses. The related matters are decided in the meetings of the board, shareholders etc. The bills and receipts of each item of preliminary expense act as documentary evidence. Lastly, no expenses other than preliminary expense should be booked under this.

S.No.	Documents to be vouched	Aspects to be verified
1.	Minutes book	Check for - (1) The resolution approving expenses claimed by the promoters and payment of an extra amount than mentioned in the prospectus. (ii) The treatment and writing off of preliminary expenses.
2.	Journal vouchers and supporting evidence	Following documentary evidences can be verified for the purposes: <b>Stamp duty</b> : Stamp affixed on MOA submitted to the ROC <b>Registration fees</b> : ROC receipt <b>Legal cost</b> : Bill and receipt received from advocate or counsel <b>Consultation fees</b> : Bill & receipt received from the consultant <b>Printing fees</b> : Bill & receipt received from the printer of MOA, share certificate, etc. <b>Other expenses</b> : Vouchers, contracts and agreements etc. in support of promoter claim
3.	Financial Statements : (a) Profit & Loss A/c (b) Balance Sheet	<ul style="list-style-type: none"> <li>• Verify the amount debited and charged in the P&amp;L A/c</li> <li>• Ensure the amount not yet written off in the B/S under the miscellaneous head</li> <li>• No expense other than those what constitutes preliminary expenses e.g. underwriting commission, brokerage paid etc.</li> </ul>

b. **Control risk:** Control risk has been defined under AAS-6 “Risk Assessments and Internal Control”. It represents the risk that the client’s system of internal control will not prevent or correct errors that occur, It is the risk that any material mis-statement; that could occur in an account balance or class, of transactions, individually or where aggregated with his statement in other balances or. classes, will not be prevented or detected on a timely basis by the system of internal control, if arises due to the intrinsic limitations of the internal control system. Therefore to assess the same, the adequacy of control design and adherence to control procedures must be tested.

6. Internal control in an EDP environment includes:-
1. Manual procedures, and
  2. Computer controlled procedures.
- They can be classified into:-
1. Overall controls affecting the EDP environment – **General EDP controls, and**
  2. Specific controls over accounting applications – **EDP application controls.**

1. **General EDP controls:** It seeks to establish a framework of overall control over the EDP activities and provide a reasonable level of assurance that the overall objectives of internal controls are achieved. These includes the following:-

Sl. No.	Types of control	Description
1.	Organisation and Management Control	Objective: To establish an organizational framework over EDP activities. It includes: (i) Policies and procedures relating to control functions. (ii) appropriate segregation of incompatible functions.
2.	Application systems- Development & Maintenance Control	Objective: To provide reasonable assurance that system are developed and maintained in an authorized and efficient manner. It includes designs to establish control over: (i) Testing, conversion, implementation and documentation of new or revised system. (ii) Changes to application system. (iii) access to system documentation (iv) acquisition of application systems from third parties.
3.	Computer Operation Controls	Objective: To control the operation of systems and provide reasonable assurance that: (i) The system is used for authorized purpose only. (ii) Access to computer operation is restricted only to authorized personnel. (iii) Only authorized programmes are used. (iv) Processing errors are deleted & immediately corrected
4.	System software control	Objective: To provide reasonable assurance that system software is acquired or developed in an authorized and efficient manner, including, (i) Authorisation, approval, testing, implementation, and documentation of new system software and systems software modification. (ii) Restriction of access to systems software and documentation to autorised personnel only.
5.	Data Entry and Program Control	Objective: To provide reasonable assurance that:- (i) An authorization structure is established over the transactions entered into a system. (ii) Access to date and programs is restricted to authorized personel.
6.	Continuity Controls	Ojective: To contribute to the continuity of EDP processing these may include:- (i) offsite backup of data and computer programs, (ii) Procedures to redeem the data in the event of theft, loss, intentional or accidental destruction, (iii) Provision for offsite processing in the event of a disaster.

2. **EDP Application Controls:-** It seeks to establish specific control procedures over the accounting applications and provide reasonable assurance that all transactions are authorized, recorded and processed completely, accurately and on a timely basis. These include the following:-

Sl. No.	Types of Control	Description
1.	Control over input	Objective : To provide reasonable assurance that: (i) Transactions are properly authorized before being processed by the computer, (ii) Transactions are accurately converted into machine readable form and recorded in the computer data files, (iii) transactions are not lost, added, duplicated or improperly changed, (iv) Incorrect transactions are rejected, corrected and, if necessary, resubmitted on a timely basis.
2.	Control over processing and computer data files.	Objective: To provide assurance that: (i) Transactions, including system generated transactions, are properly processed by the computer, (ii) Transactions are not lost, added, duplicated or improperly changed. (iii) Processing errors are duly identified and corrected.
3.	Control over output	Objective: To provide reasonable assurance that:- (i) result of processing are accurate, (ii) access to output is restricted to authorized personnel only. (iii) Output is provided, at the proper time to the appropriate authorized personnel.



**PRIME ACADEMY**  
**32ND SESSION PROGRESS TEST – LAW ETHICS & COMMUNICATION**

**No. of Pages: 5**

**Total Marks: 75**  
**Time Allowed: 2Hrs**

**PART- A**

1. The minimum number of members in private company and public company are
  - a. Three and Seven respectively
  - b. Two and seven respectively
  - c. Two and nine respectively
  - d. None of the above
  
2. A public Company can commence business after receiving
  - a. Certificate of Incorporation
  - b. Certificate to commence business
  - c. Both (a) and (b)
  - d. None of the above
  
3. 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
  
4. A private company can be converted into a public company under
  - a. Conversion by default
  - b. Conversion by operation law
  - c. Conversion by choice
  - d. Any of the above
  
5. A company limited by shares
  - a. Has limited liability
  - b. Exists only in contemplation of law
  - c. Has to be removed by the process of law
  - d. All of the above
  
6. Which of the followings is the characteristic of company?
  - a. Separate legal entity
  - b. Perpetual succession
  - c. An artificial person
  - d. All of above

7. The charter of a company is its
- Articles of Association
  - Prospectus
  - Statement in lieu of Prospectus
  - Memorandum of Association
8. East India Company is an example of
- Chartered Company
  - Statutory Company
  - Registered Company
  - Government Company
9. The case of “Soloman V Solomon & co. Ltd” deals with:
- Separate legal entity of company
  - Perpetual succession of a company
  - Common seal of a company
  - All of above
10. The minimum paid up capital for a private company is :
- ₹ 5, 00,000
  - ₹ 1, 00,000
  - ₹ 10, 00,000
  - NIL
11. The minimum paid up capital for a public company is:
- ₹ 5, 00,000
  - ₹ 1, 00,000
  - ₹ 10, 00,000
  - NIL
12. Promoter is:
- Agent of the proposed company
  - Trustee of the proposed company
  - Quasi-Agent of proposed company
  - None of above
13. The corporate veil can be lifted, when it is used:
- To defeat public convenience
  - To justify wrong
  - To protect fraud & claim
  - In all of above cases

14. A company is deemed to be subsidiary of another company
- When the latter controls the composition of the Board of Directors of the former
  - When the former controls composition of the Board of Directors of latter
  - By chain of subsidiary companies
  - All of the above
15. A provisional contract is applicable to
- Private Limited company
  - Public Limited company
  - Partnership
  - None of the above
16. Company means
- Companies registered under the Companies Act, 1956
  - Companies registered under the Companies Act, 1913
  - Companies registered under the Companies Act, 1956 or any other previous Companies Acts.
  - All of the above
17. As a consequence of separate corporate personality
- No shareholder has insurable interest in the property of the company
  - When the majority shareholders die, the company comes to an end
  - The nationality of the company does not depend on the nationality of shareholder
  - None of the above
18. A company is a juristic person with a perpetual succession
- As such it naturally dies
  - Its life depends on the life of its members
  - It is started by a process of law and can be put an end to only by a process of law.
  - All of the above
19. Non verbal communication means
- Body language
  - Oral
  - Expressive Behavior
  - (A) and (C)
20. Stages of communication includes:
- Technical advancement
  - Advances in behavioral sciences
  - Social responsibility
  - Encoding

21. Formal communication includes:

- a. Downwards
- b. Cluster
- c. Probability
- d. Gossip

22. Dements of grapevine means:

- a. Speedy transmission
- b. Channel for feedback
- c. Parallel channel of communication
- d. Incomplete & distorted information

23. Barrier to effective communication is:

- a. Eye contact
- b. Pitch variation
- c. Speaking good
- d. Prejudice

24. Principles of inter personal communication means:

- a. Unavoidable
- b. Irreversible
- c. Highly complicated
- d. All of the above

25. Find which one is not correct

- a. A leader must be a role model
- b. A leader must have positive mind set
- c. A leader must have ability to inspire others
- d. A leader must have lot of money

**(25x1 =25 Marks)**

## PART - B

**Answer any 5 questions from question no. 1 to 6 and 5 questions from Question no 7 to 12.**

1. Explain the principle behind 'Corporate personality'. Under what circumstances it should be disregarded?
2. What do you mean by Provisional contracts?
3. Define Government Company. Can a Government Company form a subsidiary Company?
4. How restrictions on transfer of shares can be made in case of private limited companies.
5. Whether a limited company can become a partner in a partnership firm?
6. What is the meaning of subsidiary company? What is the status of the private company which is subsidiary to public company?
7. What are the characteristics of communication?
8. Elaborate merits and limitations of oral communication.
9. Discuss the competencies that are associated with emotional intelligence.
10. Explain critical thinking. What are the traits of a Critical Thinker?
11. A manager of the company abuses his personal assistant in a meeting before others. The personal assistant being humiliated submits his resignation. If you were the personal assistant how will you tackle the situation.
12. Explain the types of groups in a organizations.

**(10x5=50 Marks)**

**PRIME ACADEMY  
32ND SESSION PROGRESS TEST – LAW ETHICS & COMMUNICATION  
SUGGESTED ANSWERS**

**PART A**

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

## PART B

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

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

2. Provisional contracts refer to contracts entered into by a public company after its Incorporation, but before the issue of the certificate to commence business. 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 binding on the company. If the company is unable to obtain the certificate to commence business, the provisional contract automatically lapses. 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.

3.

- (i) As per Sec. 617, a Government company means any company, in which not less than 51% of the paid-up share capital is held by the Central Government, or
- (ii) Any State Government or Governments, or
- (iii) Partly by the Central Government and partly by one or more State Governments.

A Government company can form subsidiary company. A subsidiary of a Government company can be treated as a Government company.

#### 4. Restriction on transfer of shares:

The articles contain a provision restricting the right to transfer its shares. The object of such a provision is to confine the ownership of and interest in the company to a choice circle of friends and relatives (Section 3(1) (iii) a). The right of transfer is generally restricted in the following manner:

- a. By authorising the directors to refuse transfer of shares to persons whom they do not approve or by compelling the shareholder to offer his shareholding to the existing shareholders first. It may be noted that it can only restrict the right of sale to a member. On this consideration, the articles usually provide that before selling or transferring his share, the directors must be communicated in writing of such intention of the shareholder.
- b. By Specifying the method for calculating the price at which the shares may be sold by one member to another, generally, it is left to be determined either by the auditor of the company or by the company at a general meeting.
- c. By providing that the shareholders who are employees of the company shall offer the shares to specified persons or class of persons when they leave the company's service.

5. One of the important features of a company is an artificial juristic person. Being a juristic person, company is capable of entering contract in its own name. According to Section 4 of the Partnership Act, 1932, partnership is a contractual relationship between persons; therefore, there should not be any objection to a company in becoming partner. Further, the limited liability element of a limited company is also do not restrict a company in becoming a partner in an unlimited liability of a partnership firm, because, it is limited liability of members of a limited company and not the company itself. However, the Department of Company Affairs (now Ministry of Corporate Affairs ) is in the opinion that, a company may become a partner if the Memorandum of Association specifically allows it.

6.

- a. A will be subsidiary of B, if B controls the composition of the Board of Directors of A.
- b. A will be a subsidiary of B, if B is entitled to exercise control over more than half the total voting power of A
- c. A company will be subsidiary of another company called holding company, if it is a subsidiary of a subsidiary of the holding company.  
Status of private company, which is subsidiary to public company



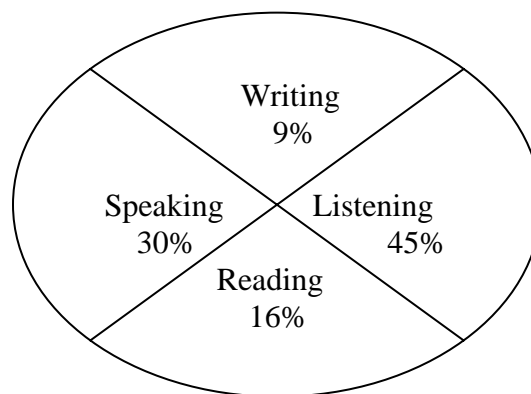
Although the Act has segregated the companies into several types, a question may arise about status of a private company, which is subsidiary to public company. In view of Section 3(IV) (c) of the Companies Act, 1956 a private company, which is subsidiary of a public company and controlled by the latter, is considered as public company. In such a situation privileges available to a private company under the Companies Act 1956 may not be available to such private company, which is a subsidiary of public company.

## 7. Characteristics of Communication

- a. Communication is essentially a two way process involving two or more persons.
- b. It is an ongoing process
- c. It is the life line of an organization
- d. It needs a sender and a receiver to complete the Communication process
- e. It may be of information, ideas, emotions, feelings, thoughts, opinions, views
- f. It is a goal oriented process. Communication is effective if the sender and receiver both are aware of the goal of communication and there is congruence of their goals. Otherwise, there is miscommunication
- g. It can be verbal, written or non-verbal like gestures
- h. It is incomplete without feedback from the receiver.

## 8. Oral communication:

According to a research, an average manager in general spends only 9% of his/her time in writing, 16% in reading, 30% in speaking and 45% in listening, as shown in the following figure



Oral communication is characterized by seven Cs- Candidness, Clarity, Completeness, Conciseness, Concreteness, Correctness, and Courtesy. These act as principles for choosing the form (style) and content (matter) of oral communication. Oral communication should provide a platform for fair and candid exchange of ideas.

Oral communication, which is face-to-face communication with others, has its own benefits. When people communicate orally, they are able to interact; they can ask questions and even test their understanding of the message. In addition, people can also relate and comprehend the non-verbal, which serves far more than words. By observing facial expressions, eye contact, tone of voice, gestures, postures, etc., one can understand the message better.

The only shortcoming of oral communication is that more often than not it is spontaneous and if one communicates incorrectly, the message will not get understood. It is primarily due to this reason, one needs to develop effective oral communication skills as a message; if not understood at appropriate time, can lead to disaster.

## 9. I- Personal Competence- How you manage yourself

### Self- Awareness

- Emotional self-awareness: Reading your own emotions and recognizing their impact; using 'gut sense' to guide decisions
- Accurate self-assessment: knowing your strengths and weaknesses
- Self-confidence: A sound sense of your self-worth and capabilities
- Self- Management
- Emotional self-control: Keeping disruptive emotions and impulses under control
- Transparency: Displaying honesty and integrity; trustworthiness
- Adaptability: Flexibility in adapting to changing situations or overcoming obstacles.
- Achievement: The drive to improve performance to meet inner standards of excellence
- Initiative: Readiness to act and seize opportunities
- Optimism: Seeing the upside in events

## II- Social Competence- How you manage Relationships

### Social Awareness

- Empathy: Sensing other's emotions, understanding their perspective and taking active interest in their concerns
- Organizational awareness: Reading the currents, decision networks, and politics at the organizational level
- Service: Recognizing and meeting follower, client or customer needs

## 10. CRITICAL THINKING

Critical thinking is not an easy concept to define as it can mean quite different things to different people in different contexts and cultures. In such a scenario, the following examples will shed light on the various aspects covered by critical thinking:

- a. Critical Thinking is the ability to analyze facts, generate and organize ideas, defend opinions, make comparisons, draw inferences, evaluate arguments and solve problems.

- b. Critical Thinking is a conscious and deliberate process which is used to interpret or evaluate information and experiences with a set of reflective attitudes and abilities that guide thoughtful beliefs and actions.
- c. Critical Thinking is reasonable reflective thinking focused on deciding what to believe or to do.

**Traits of critical thinkers include**

- a. Independent thinking, Intellectual empathy, intellectual humility, courage, integrity, perseverance, intellectual curiosity, faith in reason, intellectual civility and intellectual responsibility.
  - b. Standards that guide thinking include clarity in the thought process; accurate precise and relevant thinking, utilizing information that is directly related to the thinking situation; deep thinking; and broad thinking. These standards can guide the critical thinker to decision that is not clouded by irrelevant information.
11. As a personal assistant I will take appointment with my manager and explain to him how I was affected by his communication and request him not to blame before others even though there is any mistake and that can be pointed out and discussed with me so that the same can be rectified.

**12. Types of groups in organizations**

**a. Self directed teams:**

Autonomous and self regulated groups of employees are empowered to make decisions. In these kinds of groups the members are given utmost freedom. The goals which are to be fulfilled are made aware to all the members and the work is delegated suitable among all the members with a suitable deadline. The members are given utmost freedom to use any method or technique to achieve their targets.

**b. Quality circles:**

It is a recent group dynamics technique representing a significant productivity and work life in organizational settings. Quality circle has been defined” as a group of workers from the same area who usually meet for an hour each week to discuss their quality problems, investigate causes, recommend solutions and take corrective actions when authority is in their purview”. In other words quality circle is a small group to perform voluntarily quality control activities within their work areas.

**c. Committees:**

**Committees are of various types:**

1. Standing committee: Permanent in nature and highly empowered
2. Advisory committee: comprises experts in particular fields
3. Adhoc committee: Set up for a particular purpose and after the goal is achieved it is dissolved.

**d. Task force:**

A task force is a “temporary grouping of individuals or representatives of groups, usually with a specific deadline, which is established for the purpose of accomplishing a definite objective and which reports its findings to a larger group or legislative body”.

It is like a committee but it is usually temporary. Task force has wide power to take action and is responsible for investigation, results and power implementation of decisions. Task force groups are very important in government organizations to tackle specific administrative problems.