

# AA

**No of Questions: 7**  
**No of Pages Printed: 4**

**Total Marks: 100**  
**Time Allowed: 3 Hours**

**Answer All Questions**  
**Working Notes should form part of your Answers**

1. The balance sheets as on 31st March, 2008 of X Ltd. And Y Ltd. Are as under:

<u><b>X Ltd.</b></u>			
Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed assets	
Authorised and subscribed :		Buildings	20,00,000
60,000 equity shares of		Machineries	26,00,000
Rs.100 each fully paid	60,00,000	Furniture	40,000
Reserves and Surplus :		Current assets:	
General Reserve	8,00,000	Stock	16,00,000
Profit and Loss Account	4,80,000	Debtors	9,20,000
Current Liabilities and provisions:		Cash in hand	2,80,000
Creditors	9,60,000	Bank balances	8,00,000
	<b>82,40,000</b>		<b>82,40,000</b>

<u><b>Y Ltd.</b></u>			
Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed assets	
Authorised and subscribed :		Goodwill	4,00,000
20,000 equity shares of		Machineries	16,80,000
Rs.100 each fully paid	20,00,000	Furniture	20,000
Reserves and Surplus :		Current assets:	
Capital Reserve	2,00,000	Stock	7,20,000
General reserve	1,00,000	Debtors	7,20,000
Profit and Loss Account	1,40,000	Cash in hand	20,000
Unsecured loan :		Bank balances	1,60,000
12% Debentures	12,00,000	Expenditure on new project	3,00,000
Current liabilities and provisions :			
Creditors	3,80,000		
	<b>40,20,000</b>		<b>40,20,000</b>

Y Ltd. was absorbed by X Ltd. On 1<sup>st</sup> April, 2008, on the following terms:

- a. Fixed assets other than Good will to be valued at Rs. 20,00,000 including Rs. 24,000 for furniture.
- b. Stock to be reduced by Rs. 80,000 and Debtors by 5%.
- c. C Ltd. to assume liabilities and to discharge the 12% Debentures by issue of 11% Debentures of the same value and in addition a premium of 6% was paid in cash.
- d. The new project to be valued at Rs. 3,80,000.

- e. The share holders of Y Ltd. to receive cash payment of Rs. 30 per share plus four equity shares in X Ltd. For every five shares held in Y Ltd.
- f. Both the companies to declare and pay dividend of 6% prior to absorption.
- g. Expenses of liquidation of Y Ltd. are to be reimbursed by X Ltd.
- Prepare the Balance Sheet of X Ltd. after absorption assuming that X Ltd's authorized capital has been increased to Rs. 80,00,000.

(20 Marks)

2. The Mismanagement Ltd. Always finds that it is hard pressed for funds. In spite of borrowing funds at high rate from banks they are not able to make payments to suppliers in time. The financial position of the company as reflected from the balance sheets for the last two years is as under :

<b>BALANCE SHEETS</b>		(Rs. In lakhs)	
As on 31 <sup>st</sup> December, 2007 and 2008		2007	2008
Share Capital (Rs. 10 fully paid)		10.0	10.0
Profit and Loss account		1.65	0.45
Bank overdraft		1.55	5.95
Sundry creditors		1.00	6.00
		<b>14.20</b>	<b>22.40</b>
Land and Buildings		3.00	5.00
Plant and Machinery	5.00		6.00
Less : Depreciation	<u>1.20</u>	3.80	<u>1.80</u> 4.20
Motor cars	1.00		1.30
Less : Depreciation	<u>0.40</u>	0.60	<u>0.60</u> 0.70
Stock		2.20	7.20
Sundry Debtors		4.60	5.30
		<b>14.20</b>	<b>22.40</b>

The following further information has been given :

- a. Dividend was paid during the year ended 31<sup>st</sup> December, 2007 at the rate of 10 % :
- b. The company had sold motor van during the year 2007 for Rs. 8,000. This was purchased for Rs. 10,000 and its depreciated value in the books as on 1<sup>st</sup> January, 2007 was Rs. 5,000. Prepare a cash flow statement

(16 Marks)

3. Amar , Babu and Chander were partners in business, sharing profits and losses in the ratio 2 :1:1. Their Balance sheet as at 31-3-07 is as follows :

<b>BALANCE SHEET</b>		(Rs. '000)	
As at 31.3.07		Rs.	Rs.
Liabilities		Assets	
Fixed capital :		Fixed assets	300
Amar	200	Investment	50
Babu	100	Current assets :	
Chander	100	Stock	100
	400		

Current Accounts :			Debtors	60	
Amar	40		Cash and Bank	150	310
Babu	20	60			
Unsecured loans		200			
		<u>660</u>			<u>660</u>

On 1.4.07, it is agreed among the partners that BC(P) Ltd., a newly formed company with Babu and Chander having each taken up 100 shares of Rs.10 each will take over the firm as a going concern including goodwill but excluding cash and bank balances. The following points are also agreed upon :

- Goodwill will be valued at 3 years' purchase of super profits.
- The actual profit for the purpose of goodwill valuation will be Rs. 1,00,000.
- Normal rate of return will be 15% on fixed capital.
- All other assets and liabilities will be taken over at book values.
- The purchase consideration will be payable partly in shares of Rs. 10 each and partly in cash. Payment in cash being to meet the requirement to discharge Amar, who has agreed to retire.
- Babu and Chander are to acquire equal interest in the new company.
- Expenses of liquidation Rs. 40,000.

You are required to prepare the necessary Ledger Accounts.

**(16 Marks)**

4. From the following figures appearing in the books of Fire Insurance division of a General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31<sup>st</sup> March, 2008:

	Direct business Rs.	Re-insurance Rs.
Claims paid during the year	46,70,000	7,00,000
Claims payable-1 <sup>st</sup> April,2007	7,63,000	87,000
31 <sup>st</sup> March,2008	8,12,000	53,000
Claims received	-----	2,30,000
Claims receivable-1 <sup>st</sup> April,2007	-----	65,000
31 <sup>st</sup> March, 2008	-----	1,13,000
Expenses of Management	2,30,000	

(includes Rs. 35,000 Surveyor's fee and Rs. 45,000 Legal expenses for settlement of claims)

**(8 Marks)**

5. Sri Ram 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 2008:

	Rs.
Goods with customers on 1-4-2007(installments are not due)	3,20,000
Installments due on 1-4-2007(customers are still paying)	1,62,000
Goods sold on HP during the year	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 repossessed goods	40,000
Goods with customers as on 31-3-2008(at HP price)	7,20,000

**(8 Marks)**

6. Answer any **eight**:

(a) The following are the amounts due on different dates in between two parties:

Amount (Rs)	Due dates
500	3rd July
800	2nd August
1,000	11 September

Suggest a date on which all the bills may be paid out without any loss of interest to either party.

(b) What is an account Current?

(c) List the various ledgers which are required to be maintained under self-balancing system.

(d) During 2007, subscriptions received in cash Rs.42,000. It includes Rs.1,600 for 2006 and Rs.600 for 2008. Also Rs.3,000 has still to be received for 2007. What is the amount to be credited to Income and expenditure account for the year 2007, in respect of subscriptions account.

(e) A plant worth Rs.40,000 had been insured for Rs.30,000, the loss on account of fire is Rs.25,000. What is the amount of loss that the insurance company would bear.

(f) A and B are partners sharing profits in the ratio 5:3, they admit C giving him  $\frac{3}{10}$  th share of profits. If C acquires  $\frac{1}{5}$  th share from A and  $\frac{1}{10}$  th from B. What is the new profit sharing ratio.

(g) X, Y and Z are partners in a firm with investment of Rs.1,00,000, 10,000 and 20,000 respectively. At the time of division of profit for the year there was a dispute between the partners. Profits before interest on partner's capital was Rs.60,000. and Y determined his interest @24% p.a. on his loan of Rs.80,000. As X had spent all his time managing the business wanted Rs.2,000 per month as remuneration and interest on capital @6% at least. Calculate the profits distributed among X, Y and Z.

(h) Explain Garner vs Murray rule.

(i) What are the advantages of outsourcing the accounting functions.

(j) When can revenue be recognised in the case of a transaction of sale of goods?

**(8 x 2 = 16 Marks)**

7. Answer any **four**:

(a) What is meant by cash and cash equivalents as per AS-3.

(b) A Ltd a manufacturing firm wants to change its method of charging depreciation from Straight line to depletion method, can it change its method? If so, what are the requirements?

(c) Explain the treatment of government grants in relation to depreciable and non-depreciable assets.

(d) Bharat Hospitals started 20 years ago wants to reinstate its assets in its Balance Sheet as they do not reflect the current position. Can it do so? If so, how?

(e) "An enterprise has to exercise scrupulous care in the selection and application of accounting principles and methods. What does "this selection depend upon? - Explain.

(f) Write a short note on prior period item.

**(4 x 4 = 16 Marks)**

**PRIME ACADEMY**  
**26<sup>TH</sup> SESSION MODEL EXAM**  
**PCC – ADVANCED ACCOUNTING –(Answers)**

**1. COMPUTATION OF PURCHASE CONSIDERATION**

For shareholders :	Rs.
Cash : 20,000 * 30	6,00,000
Shares : 20,000/5 * 4 * 100	16,00,000
	22,00,000

Books of Y Ltd.

**JOURNAL ENTRIES**

Particulars		Dr. Rs.	Cr. Rs.
P & L account	Dr.	1,20,000	
To dividend payable			1,20,000
(Being dividend declared as 6% on share capital)			
Dividend payable A/c	Dr.	1,20,000	
To bank			1,20,000
(Being payment of dividend)			
Realisation A/c	Dr.	39,00,000	
To goodwill			4,00,000
To machineries			16,80,000
To Furniture			20,000
To stock			7,20,000
To debtors			7,20,000
To cash in hand			20,000
To bank			40,000
To Exp. On new project			3,00,000
(Being transfer of assets to realization A/c)			
Debentures a/c	Dr	12,00,000	
Creditors	Dr.	3,80,000	
To realization A/c			15,80,000
(Being transfer of creditors to realization A/c)			
X Ltd.	Dr.	22,00,000	
To realization A/c			22,22,000
(Being purchase consideration due by Y Ltd.)			
Bank A/c	Dr.	6,00,000	
Shares in X Ltd.	Dr.	16,00,000	

To Y Ltd.			22,22,000
(Being receipt of purchase consideration)			
Shareholders A/c	Dr.	1,20,000	
To realization A/c			1,20,000
(Being loss on realization)			
Share capital A/c	Dr.	20,00,000	
Capital reserve	Dr.	2,00,000	
General reserve	Dr.	1,00,000	
Profit and loss A/c	Dr.	20,000	
To shareholders A/c			23,20,000
(Being share capital, reserves etc. transferred to shareholders account)			
Shareholders A/c	Dr.	22,00,000	
To bank			6,00,000
To shares in X Ltd.			16,00,000
(Being payment to shareholders)			

working notes :

**(i) REALISATION ACCOUNT**

Dr. Particulars	Rs.	Particulars	Rs. Cr.
To sundry assets	39,00,000	By creditors	15,80,000
		By X Ltd.	22,00,000
		By shareholders A/c (loss)	1,20,000
	<u>39,00,000</u>		<u>39,00,000</u>

**(ii) SHAREHOLDERS ACCOUNT**

Dr. Particulars	Rs.	Particulars	Rs. Cr.
To realization A/c	1,20,000	By share capital	20,00,000
To shares in X Ltd.	16,00,000	By capital reserve	2,00,000
To bank	6,00,000	By P & L Account	20,000
		By General Reserve	1,00,000
	<u>23,20,000</u>		<u>23,20,000</u>

X Ltd.

**BALANCE SHEET (AFTER ABSORPTION)**

Liabilities	Rs.	Assets	Rs.
Share capital :		Fixed assets:	
Authorised :		Goodwill	16,000
80,000 equity shares		building	20,00,000
of Rs. 100 each	80,00,000	machineries	45,76,000
subscribed capital :		furniture	64,000
76,000 equity shares of		current assets:	
Rs.100 each fully paid	76,00,000	Stock	22,40,000
General reserve	8,00,000	debtors	16,04,000
Profit & Loss account		New project	3,80,000

(4,80,000-3,60,000)	1,20,000	cash and bank balances	
	1,08,000	Loss on issue of Debentures	72,000
current liabilities & provisions:			
11% debentures	12,00,000		
Creditors			
(9,60,000+3,80,000)	<u>13,40,000</u>		
	<u>1,10,60,000</u>		<u>1,10,60,000</u>

Working notes :

1. Net assets of Y Ltd. acquired by X Ltd. :	Rs.	Rs.
Machineries	19,76,000	
Furniture	24,000	
Stock	6,40,000	
Debtors	6,84,000	
Cash in hand	20,000	
Bank balance	40,000	
New project	<u>3,80,000</u>	37,64,000
Less creditors		<u>15,80,000</u>
		<u>21,84,000</u>
2. Goodwill/ capital reserve :		
Purchase consideration including liquidation costs		22,00,000
Less: net assets		<u>21,84,000</u>
Goodwill		<u>16,000</u>
3. Cash and bank balances :		
Balances on 31 <sup>st</sup> March		10,80,000
Add : Acquired from Y Ltd		<u>60,000</u>
		11,40,000
less : cash in purchase consideration :		<u>6,00,000</u>
		5,40,000
less: dividend paid		<u>3,60,000</u>
		1,80,000
Less: payment to debenture holders		<u>72,000</u>
Cash in hand		<u>1,08,000</u>

4.		Rs.	Rs.
12% debenture a/c	Dr	12,00,000	
Loss on issue of debentures a/c	Dr.	72,000	
To 11& Debentures			12,00,000
To Bank			72,000

2.

**CASH FLOW STATEMENT***For the year ending 31<sup>st</sup> December 2008*

(i) CASH FROM OPERATIONS	Rs.	Rs.
Funds from operations	62,000	
Add: Increase in creditors	<u>5,00,000</u>	5,62,000
Less : Increase in stock	5,00,000	
Increase in debtors	<u>70,000</u>	<u>5,70,000</u>
Cash outflow on account of operations		( 8,000)
Cash flow from investing activity:		
Sale of car	8,000	
Purchase of Land and buildings	(2,00,000)	
Purchase of plant and machinery	(1,00,000)	
Purchase of motor car	<u>(40,000)</u>	
Cash flow from investing activity		(3,32,000)
Cash flow from financing activity:		
Dividend paid	(1,00,000)	<u>(1,00,000)</u>
Net decrease in cash and cash equivalents		<u>(4,40,000)</u>
Reconciliation:		
Bank overdraft as on 31-12-2008		(5,95,000)
Bank overdraft as on 1-1-2008		(1,55,000)
Increase in overdraft		(4,40,000)

Working notes:

## (i) ADJUSTED P.&amp; L. ACCOUNT

Dr.	Rs.		Rs.	Cr.
To dividend paid	1,00,000	By balance b/d	1,65,000	
To depreciation on Plant and machinery	60,000	By profit on sale of Car	3,000	
To depreciation on Motor car	25,000	By funds from operations (bal. fig.)	62,000	
To balance c/d	<u>45,000</u>		-----	
	<u>2,30,000</u>		<u>2,30,000</u>	

## (ii) MOTOR CAR ACCOUNT

Dr.	Rs.		Rs.	Cr.
To Balance b/d	1,00,000	By bank	8,000	
To P & L (profit transferred)	3,000	By depreciation	5,000	
To Bank(purchase bal figure)	<u>40,000</u>	By balance c/d	<u>1,30,000</u>	
	<u>1,43,000</u>		<u>1,43,000</u>	

## (iii) DEPRECIATION ON MOTOR CAR ACCOUNT

Dr.	Rs.		Rs.	Cr.
To motor car A/c	5,000	By balance b/d	40,000	
To Balance c/d	<u>60,000</u>	By P & L	<u>25,000</u>	
	<u>65,000</u>		<u>65,000</u>	

## (iv) PLANT AND MACHINERY

Dr.	Rs.		Rs.	Cr.
-----	-----	--	-----	-----

To Balance b/d	5,00,000	By balance c/d	6,00,000
To Bank (purchases)	<u>1,00,000</u>		<u>        </u>
	<u>6,00,000</u>		<u>6,00,000</u>

(v) DEPRECIATION ON PLANT AND MACHINERY

Dr.	Rs.		Rs.	Cr.
To balance c/d	1,80,000	By Balance b/d	1,20,000	
	<u>        </u>	By P & L account	<u>60,000</u>	
	<u>1,80,000</u>		<u>1,80,000</u>	

3. **Basic calculations :**

1. Computation of Goodwill :	Rs.
Weighted average of Actual Profits	1,00,000
Less: Normal profits at 15% of fixed capital employed Of Rs. 4,00,000	60,000
Super profits	40,000
Goodwill at 3 years' purchase, i.e. 40,000 * 3	1,20,000

2. Computation of purchase consideration :

Total assets as per balance sheet	6,60,000
Less : cash and Bank Balances	<u>1,50,000</u>
	5,10,000
Add : Goodwill	<u>1,20,000</u>
	6,30,000
Less: unsecured loans	<u>2,00,000</u>
Purchase consideration	<u>4,30,000</u>

Ledger Accounts

		<b><u>Realisation Account</u></b>			
Dr. Particulars	Rs.	Particulars	Rs.	Cr.	
To sundry assets	5,10,000	By unsecured loans	2,00,000		
To goodwill	1,20,000	By BC(P) Ltd.	4,30,000		
To Bank(Expenses)	40,000	By capital accounts :			
		Amar	20,000		
		Babu	10,000		
		Chander	<u>10,000</u>	<u>40,000</u>	
	<u>6,70,000</u>			<u>6,70,000</u>	

**Capital Accounts**

Particulars	Amar	Babu	Chander	Particulars	Amar	Babu	Chander
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To realisa- tion	20,000	10,000	10,000	By bal. c/d	2,00,000	1,00,000	1,00,000
To cash	2,80,000	1,39,000	1,19,000	By cur. a/c	40,000	20,000	
To shares in BC(P)Ltd		1,000	1,000	By goodwill	60,000	30,000	30,000
	<u>3,00,000</u>	<u>1,50,000</u>	<u>1,40,000</u>		<u>3,00,000</u>	<u>1,50,000</u>	<u>1,40,000</u>

### Cash and Bank Account

Dr. Particulars	Rs.	Particulars	Rs. Cr.
To Balance b/d	1,50,000	By realization A/c(expenses)	40,000
To BC(P)Ltd	4,28,000	By Amar's Capital A/c	2,80,000
		By Babu's Capital a/c	1,39,000
		By Chander's Capital a/c	<u>1,19,000</u>
	<u>5,78,000</u>		<u>5,78,000</u>

### BC(P)Ltd.

Dr. Particulars	Rs.	Particulars	Rs. Cr.
To realization A/c	4,30,000	By cash	4,28,000
		By equity shares (Bal. Figure)	2,000
		(26,000 shares of Rs.10 each)	<u>          </u>
	<u>4,30,000</u>		<u>4,30,000</u>

#### 4. General Insurance Company

Fire Revenue Account (Extracts)

For the year ended 31<sup>st</sup> March, 2008

	Schedule	(in thousand rupees)
claim incurred	2	51,87
<b>SCHEDULE 2</b>		
<b>CLAIMS INCURRED NET</b>		
To claims less re-insurances :	52,20	
Add : Outstanding Claims at the end of the year	<u>7,52</u>	
	59,72	
less : outstanding claims at the beginning of the year	<u>7,85</u>	51,87

#### working notes :

1. Claims paid during the year :		
Direct Business	46,70	
Re-insurance	<u>7,00</u>	53,70
Add : Surveyor's fee	35	
Legal expenses	<u>45</u>	80
		54,50
Less : Claims received from Re-insurers		<u>2,30</u>
		<u>52,20</u>
2. Claims outstanding on 31 <sup>st</sup> March, 2008:		
Direct business		8,12
Re-insurance	<u>53</u>	8,65
Less : claims received from re-insurers		<u>1,13</u>
		7,52
3. Claims Outstanding on 1 <sup>st</sup> April, 2007		
Direct Business	7,63	

Re-insurance	<u>87</u>	8,50
Less : claims receivable from Re-insurers		<u>65</u>
		<u>7,85</u>

5. In the books of S Ltd.

Hire purchase Trading account for the year ended on 31-12-2008

Dr. Particulars	Rs.	Particulars	Rs. Cr.
To Hire purchase Stock	3,20,000	By HP Stock Reserve	1,20,000
To installments due	1,62,000	By Bank	11,20,000
To goods sold on HP	16,00,000	By goods repossessed	16,000
To HP Stock Reserve	2,70,000	By goods sold on HP	6,00,000
To Profit and loss a/c	4,26,000	By HP stock	7,20,000
		By installments due	<u>2,02,000</u>
	<u>27,78,000</u>		<u>27,78,000</u>

Working notes:

1. Opening stock Reserve  $3,20,000 \times 60/160 = 1,20,000$

2. Loading on goods sold on HP  $16,00,000 \times 60/160 = 6,00,000$ .

3. Closing stock reserve  $7,20,000 \times 60/160 = 2,70,000$

4. Calculation of installments due at the end of the year

Opening HP stock + Opening installments due + HP sales during the year

	Rs.	Rs.
(3,20,000 + 1,62,000 + 16,00,000)		20,82,000
Less: Cash received from customers	11,20,000	
Installments unpaid for repossessed goods	40,000	
Closing balance of HP stock	7,20,000	18,80,000
Closing installments due		2,02,000

6(a) Considering July 3rd as the starting date the following table is prepared:

Due dates	Amount	No. of days from 3/7	Products
3rd July	500	0	0
2nd August	800	30	24,000
11th September	1000	70	70,000

Average due date =  $3\text{rd July} + 94,000/2,300$   
 $= 3\text{rd July} + 41 \text{ days} = 13\text{th August}$ .

(b) An account current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged in various items. It takes the form of an account. It is prepared when frequent transactions take place between two parties. For example between a manufacturer and a merchant : a banker and his customer.

(c) The various ledgers which are required to be maintained under self-balancing system are in the general ledger :



**7.(a)** As per AS-3 Cash comprises of cash on hand and demand deposits with banks.

Cash equivalents are short-term ,highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of change in value.

**(b)** AS per AS-6 " Depreciation accounting" para 15

The method of depreciation is applied consistently to provide comparability of the results of the operation of the enterprise from period to period. A change from one method of providing depreciation to another is made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of an enterprise. When such a change in the method of depreciation is made, depreciation is recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method is adjusted in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency is charged to the statement of profit and loss .In case the change in the method results in a surplus, the surplus is credited to the statement of profit and loss . Such a change is treated as a change in accounting policy and its effect is quantified and disclosed.

**(c)** As per AS-12 "Accounting for Government Grants" para 8there are two methods of presentation of grants in the financial statements:

Under one method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Where the grant equals the whole ,or virtually the whole, of the cost of the asset, the asset is shown in the balance sheet at a nominal value.

Under the other method, grants relating to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which the depreciation on related assets is charged. Grants related to non depreciable assets are credited to capital reserve under this method, as there is usually no charge to income in respect of such assets. However, if the grant related to a non-depreciable asset requires the fulfillment of certain obligations, the grant is credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income is suitably disclosed in the balance sheet pending its apportionment to profit and loss account. For example in a company ,it is shown after "Reserves and Surplus" but before "Secured loans" with a suitable description eg. "Deferred government grants"

**(d)** Refer to AS -10 "Accounting for fixed Assets" para13.

Answer found in page 60 of the book "First Lessons on Accounting Standards" by Mr.M.P.Vijay Kumar

(e) Refer to AS-1 "Disclosure of Accounting Policies "para 10  
Answer found in page 2 of the book "First Lessons on Accounting Standards" by Mr.M.P.Vijay  
Kumar

# AE

No of Questions: 8  
No of Pages Printed: 2

Total Marks: 100  
Time Allowed: 3 Hours

## Answer All Questions

### 1) Answer any Ten

- a. The primary responsibility for the prevention and detection of fraud and error rests with the auditor of the Company
- b. State whether a Casual vacancy created on account of resignation can be filled by the Board of Directors
- c. What is the meaning of Good evidence? Give an example
- d. When an adverse opinion is expressed?
- e. The internal auditors as well as the statutory auditors are both appointed by the members in the General Meeting. Comment
- f. K & co did the audit of the ABC (P) Ltd. The Directors of the Company claimed that audit working papers are the property of the Company. Is the Claim proper?
- g. Audit risk Consists of Inherent risk, Control risk and detection risk –**Say True or False**
- h. According to Sec 224 (1) (B), the specified number of companies that can be audited by a person is -- ----Of which not more than ----- should be companies with a paid up capital of Rs, 25 lakhs or more.
- i. Cut off procedures are generally applied to trading transactions -**Say True or False**
- j. What do you mean by window dressing
- k. Confirmation is an auditing technique that involves response to an inquiry to corroborate information contained in the accounting records-**Say True or False**
- l. When is the Auditor's report considered to be modified **(10X2 = 20 Marks)**

### 2) Comment on the following issues

- 1) (a) No depreciation has been charged for the year ended 31<sup>st</sup> march in respect of a spare bus purchased during the year and kept ready by the company for use as a stand by on the ground that it was not used during the year.  
(b) A loss of Rs. 2 lacs on account of embezzlement of cash was suffered by the company and it was debited to Salary account.
- 2) You are the Chief of the Internal Audit department of a large manufacturing concern. As the head of the Department your duty inter alia is to advise on and observe the maintenance of proper records of plants machinery and tools and dies as well as to keep a watch upon the chances of obsolescence of the plants and machineries. Draft a suitable program by which you can discharge duties properly

**(6+6+8Marks)**

- 3) What is meant by Analytical review procedures and to what extent they can be relied upon. State different types of analytical reviews carried out in connection with the verification of Inventories and Debtors and Loans and advances

(10 Marks)

- 4) Distinguish between
- a. Reports and Certificates
  - b. Test Check and Surprise Check
- (2 X 5 = 10 Marks)

- 5) a. The over all objective and scope of an audit does not change in an EDP Environment. Comment
- b. Doing an audit in an EDP environment is simpler since the trial balance always tallies-  
Comment
- (2 X 5 = 10 Marks)

- 6) (a) Audit of expenditure is one other major components of Government audit. In this Connection, write in brief what you understand by:
- 1. Audit against rules and orders
  - 2. Audit of sanctions
  - 3. Propriety audit
- (2X3=6 Marks)

(b) What do you understand by internal check (4 Marks)

- 7) How will you verify or vouch the following:
- a. Sales commission expenditure
  - b. Stocks lying with third party
- OR**
- Purchase of Motor Car (2 X 5 = 10 Marks)

- 8) Write Short notes on the following
- a. Cut-off arrangement
  - b. Sweat Equity shares
- OR**
- Disclosure of accounting policies (2 X 5 = 10 Marks)

**PRIME ACADEMY**  
**26<sup>TH</sup> SESSION MODEL EXAM**  
**PCC – AUDITING AND ASSURANCE (Answers)**

- 9)
- a. Primarily it is the responsibility of the Management to design and implement a suitable system of internal control to safeguard the assets and prevent frauds and defalcations.  
The Auditor's role is limited to the extent of the objective of an audit and his liability arises only for the failure to detect due to non-exercise of reasonable care and skill on his part.
  - b. No. A casual vacancy arising on account of resignation of an existing auditor can be filled only by the Company in a General Meeting by an ordinary or special resolution . Special resolution is needed only if Sec224A is applicable
  - c. An audit evidence if it is sufficient and appropriate for the auditor to express his opinion on whether the financial statements show a true and fair view and enables him to draw reasonable conclusions is a good evidence.
  - d. An adverse opinion is given when the Auditor concludes that based on his examination he does not agree with the affirmations made in the financial statements /Financial report.(ii) When he states that the financial statements do not present a true and fair view of the state of the affairs and the working results of the organization.  
An adverse opinion is expressed when the effect of a disagreement is so material and pervasive to the Financial statements that the Auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the Financial statements.
  - e. An internal auditor is appointed by the management of the Company and is generally an employee of the enterprise where as an External or statutory auditor is not part of the Company and is appointed by the Owner or Shareholders of the enterprise.
  - f. No, the claim is not proper. The working papers are the property of the Auditor. The Auditor may at his discretion make portions of or extracts from his working papers available to his clients.
  - g. TRUE
  - h. 20 Nos ; 10 Nos
  - i. TRUE
  - j. Window-Dressing stands for mis-presentation of accounts with a view to present a better picture of the state of financial affairs than its actual.
  - K. TRUE
  - l. An Auditor when he issues any Report other than unqualified, his report is said to be modified.  
As per AAS-28, an Auditor's report is considered to be modified when it includes-
    - (a) Matters that do not affect the auditor's opinion- With emphasis of matter paragraph
    - (b) Matters that do affect the Auditor's opinion viz-
      - Qualified opinion
      - Disclaimer of opinion; and
      - Adverse opinion

10) 1(a) As per AS-6 on Depreciation Accounting , depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Thus depreciation has to be charged even in case of these assets which are not used at all during the year but by mere effluxion of time provided such assets qualify as depreciable assets. When the spare bus was kept ready for use as stand-by, it means it was intended to be used for the purpose of business. Depreciation in respect of this bus ought to have been provided in the accounts for the year ended 31st March . If there is an intention to use an asset though it may not have actually been used it is constructive or passive use and eligible for claim of depreciation,

1(b) AS-5 on “Net profit or Loss for the period, prior period items and changes in Accounting policies, requires that all items of income and expense which are recognized in a period should be included in the determination of net profit or loss for the period. It further states that “when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately”. Embezzlement of cash during the course of business is a business loss. It is a business hazard which can occur once in a while, It cannot be merged with any other head much less the salary, Being material item, it is required to be disclosed under a distinct head in the profit and loss account.

2) The Internal Audit programme in connection with Fixed Assets may be in the following lines-

1. **Asset Register:** To review the registers and records of plant, machinery, etc showing clearly the date of purchase of assets, cost price, location, depreciation charged etc.
2. **Cost report and Journal Register:** To review the reporting costs relating to each plant and machinery; to verify items, which have been capitalized.
3. **Code Register:** To see that each item of plant and machinery has been given a distinct code number to facilitate identification and verify the maintenance of code register.
4. **Movement Register :** To verify whether (a) Movement register for movable equipments and (b) Log books in case of vehicles etc are being recorded properly.
5. **Physical verification:** To see that physical verification has been conducted at frequent intervals
6. **Asset Disposal register:** To review whether assets have been disposed of after proper technical and financial advice and sales/disposal/retirement, etc of these assets are governed by authorization, sales memos or other appropriate documents
7. **Spare Parts register:** To examine the maintenance of a separate register of tools, spare parts for each plant and machinery
- 8 **Review of maintenance:** To scrutinize the programme for an actual periodical servicing and overhauling of machines; To examine the extent of utilization of maintenance department services
9. **Review of obsolescence:** To scrutinize whether expert’s opinion have been obtained from time-to-time to ensure purchase of technically most useful efficient and advances machines after a thorough study.
10. **Review if R & D :** To review R & D activity and ascertain the extent of its relevance to – (a) the operations of the organization (b) maintenance of machinery efficiency and (c) prevention of early obsolescence.

- 3) Analytical reviews are “test of details, which consists of studying significant ratios and trends and investigating unusual fluctuations and items, Thus Analytical reviews are substantive audit procedures”(AAS-5)  
They are “analysis of significant ratios and trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or which deviate from predicted amounts”

**Reliance on analytical on procedures depends on the following factors-**

1. **Materiality of items involved:** When inventory balances are material, analytical reviews alone will not be sufficient in forming the audit conclusions, When certain individual items of income or expenditure are not material, comparison with previous year data may provide sufficient audit assurance .
2. **Other audit procedures:** When other audit procedures are directed in the same area, analytical reviews may provide confirmatory evidence. For example, in reviewing the realisability of debtors, the auditor may analyse subsequent cash receipts. It might confirm or dispel questions raised from analytical procedures e.g scrutiny of ageing schedule of debtors, provision for bad debts statement etc.
3. **Accuracy of prediction:** If the expected results of analytical procedures can be predicted with reasonable accuracy, such procedures will be more reliable e.g, Gross profit percentage over various periods would be consistent and gives more audit reliance than say , R& D Expenditure or Advertisement expenditure etc.
4. **Nature of risks:** The effect of analytical procedures also depends on the assessment of inherent and control risks. If internal control over sales order processing is weak and hence, control risk is high, more reliance will be placed on tests of details of transactions and balances rather than on analytical procedures.

**Different types of analytical reviews carried out in connection with the verification of Inventories and Debtors and Loans and advances**

**1. Inventories:**

- a. Quantitative reconciliation of opening stocks, purchase, production sales and closing stocks;
- b. Comparison of closing stock quantities and amounts with those of the previous year
- c. Comparison of stock turnover ratios for current year with that of previous year and with industry standards if available
- d. Comparison of the composition of closing stock (eg., raw materials, WIP and finished goods as a percentage of total stocks) with the corresponding figures of previous year;
- e. Comparison of the current year gross profit ratio with previous years' ratio;
- f. Comparison of actual stock , purchase and sales figures with budgeted figures, if available;
- g. Comparison of raw materials yield/ wastage with previous year figures

**2. Debtors and Loans and advances**

- a. Comparison of closing balances of debtors, loans and advances with previous years' figures
- b. Comparison of current year Debtors Turnover ratio with previous year and industry standards, if any;
- c. Comparison of actual closing balances of debtors, loans and advances with corresponding budgeted figures if any.
- d. Comparison of current year's ageing schedule with the corresponding figures of previous year.

4)

**c. Reports and Certificates**

<b>Report</b>	<b>Certificate</b>
An audit report is an expression of opinion on the true and fair view presented by financial statements	Certificate is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion
An audit report implies that the auditor Has examined the relevant records in Accordance with generally accepted auditing standards and is expressing an opinion whether or not the financial statements represent a true and fair view of the state of affairs and other working results of an enterprise.	An auditor's certificate implies that the auditor has verified certain precise figures and is in a position to vouch safe their accuracy as per the examination of documents and books of account produced before him.
An auditor's report is an expression of opinion	A certificate is issued when the verification of Certain exact facts is done
An audit report is issued , the auditor is responsible for ensuring that the report is based on factual data, that his opinion is in due accordance with facts and that it is arrived \ At by the application of due care and skill	When a certificate is issued, the auditor is responsible for the factual accuracy of what is stated therein.

**d. Test Check and Surprise Check**

<b>Test Check</b>	<b>Surprise Check</b>
Test Checking is an accepted auditing procedure wherein only a part of it is checked to form an opinion instead of checking all transactions	Surprise Checks refers to the out of routine checks that is carried out in the normal course of audit
Check on the effectiveness of internal control system in operation and other measures for safeguard of assets	Cash verification, investment verification stores and stocks , verification of books of prime entry and statutory registers
Test Checks are conducted during the normal course of audit	No specific time frame for conducting Surprise Checks and there is an element of surprise in such verification
Statistical sampling and auditing in depth are effective tools of test check	Usual audit procedures are followed even in case of surprise checks

**5. a.**

- a) Audit in an EDP environment does not change much in overall scope and objective as:
- b) EDP audit also involves
- c) Audit of internal controls, their existence, effectiveness, reliability
- d) The risk involved
- e) Planning how , where and when the audit is to be conducted
- f) Planning the audit procedure using computer assisted audit techniques (elaborate on all these points)

**b.**

- i. **Tallied Trial Balance:** In an EDP environment, The Trial balance may always tally but it does not necessarily mean that the job of an auditor becomes simpler
- ii. **Errors:** There is a possibility of errors of complete omission, compensating errors, duplication entries, errors of principle and deliberately concealed frauds even when the trial balance tallies
- iii. **Audit objective:** Tallying of trial balance may mean arithmetical accuracy in most cases. But the audit objective is expression of opinion on the true and fair view of financial statements , not just ensuring arithmetical accuracy
- iv. **New aspects:** Accounting aspects have become multi faceted due to emergence of concepts like lease finance, options and futures derivatives, off-balance sheet financing , packaged lending ,book building etc.
- v. **Other audit views:** Besides tallying a trial balance there are other audit issues like estimation of depreciation, valuation of inventories, where the auditor is required to exercise his skill and judgment

In view of the above it may be concluded that a tallied trial balance in an EDP environment need not necessarily simplify the audit function.

## 6. (a)

### 4. **Audit against rules and orders**

The auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority.

5. **Audit of sanctions:** The auditor has to ensure that each item of expenditure is covered by an sanction either, general or special accorded by the competent authority, authorizing such expenditure.

3. **Propriety audit :** It is required to be seen that the expenditure is incurred with due regard to broad and general principles of financial propriety. The auditors aims to bring out cases of improper, avoidable or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations, Audit aims to secure a reasonably high standard of public financial morality by looking into the wisdom, faithfulness and economy of transactions.

## 6. (b)

Internal Check has been defined by the Institute of Chartered Accountants of England and Wales as the checks on day-to-day transactions which operate continuously as part of routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud. Internal check is a part of the overall internal control system and operates as a built in device as far as the staff organization and job allocation aspects of the control system are concerned.

A system of internal check in accounting implies organization of system of book keeping and arrangement of staff duties in such a manner that no one person can completely carry through a transaction and record every aspect thereof. The essential elements of a goods system of internal check are :

- 1) Existence of checks on the day to day transaction
- 2) Which operate continuously as apart of the routine system
- 3) Whereby the work of each person is either proved independently or is made complementary to the work of another

Thus the objective is to bring about a speedy detection of frauds , wastes and errors.

## 7.

### c. **Sales commission expenditure**

- a. Examine the agreement or correspondence and note the rate of commission and other terms and other conditions
- b. Check the amount of orders received through agents to ensure that commission is paid to them for services rendered or orders obtained by them
- c. Ascertain whether sales commission is calculated properly and paid only to authorized agents /dealers/distributors
- d. Verify computation of commission based on the agreement
- e. Where commission eligibility is subject of realization of debtors, check the calculations of commission accordingly
- f. Ensure the payment is properly authorized
- g. Verify the entry relating to payment in the Bank book and trace the payment in the bank statements
- h. Verify whether TDS has been deducted at source at the appropriate rates and remitted with the due dates stipulated under the Income Tax Act
- i. Verify the acknowledgements or receipt received from agents
- j. Compute percentage of commission to Total Sales. Compare this with previous years' figures and obtain explanations for significant deviations.

**d. Stocks lying with third party**

Stocks lying with third parties include

- (i) Stocks in pledged godowns,
- (ii) Stocks in the hands of distributors, dealers or retailers
- (iii) Stocks with customers to whom goods have been sent on sale or return basis
- (iv) Stock with transporters

1. Confirmatory certificates shall be received from the above parties to verify the value of stocks
2. Examine that there are separate stock sheets for each of the above item
3. In case of goods on consignment and stock on sale or return basis- verify the relevant agreements, proforma invoices and the quantitative details thereof.
4. Verify the reconciliation statements

**OR**

**Purchase of Motor Car**

- a) Ascertain the amount at which the asset is capitalized, including all accessories, registration fees, life-time tax, and other incidental expenses of purchasing the asset
- b) Verify whether the invoice is made out in the name of the client
- c) Examine whether the entire consideration has been properly settled
- d) Where the purchase is of second hand car, confirm whether the receipt contains all relevant details like registration number, chassis number etc
- e) Verify the title and in case of bank finance purchase whether hypothecation has been noted properly
- f) Ascertain whether the asset has been properly insured for the requisite value
- g) Ascertain whether requisite amount has been paid for the vehicle
- h) Verify whether the asset acquisition has been duly authorized by competent authority
- i) Confirm that all costs relating to acquisition have been capitalized
- j) Confirm that minor repair expenditure have been duly charged to revenue
- k) Check the computation of depreciation , rate and whether the asset has been properly disclosed

**8.**

**c. Cut-off arrangement**

Accounting is a continuous process because the business never comes to halt. It is therefore necessary that transactions of one period would be separated from those in the ensuing period so that the results of the working of each period can be correctly ascertained. The arrangement that is made for this purpose is technically known as "cut-off arrangement". It essentially forms part of the internal control system of the organization, Accounts other than sales, purchase and stock are not usually affected by the continuity of the business and therefore this arrangement is generally applied only to sales, purchase and stock. The auditor satisfies by examination and test-checks that the cut-off procedure are adequately followed and ensure that

- (i) Goods purchased, property in which passed on to the client have in fact been included in the inventories and that the liability has been provided for in case credit purchase
- (ii) Goods sold have been excluded from the inventories and credit has been taken for the sales. If the value of sales is to be received, the concerned party has been debited.

**d. Sweat Equity shares**

As per the explanation to section 79A, the expression sweat equity shares means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called. The auditor may see that the sweat equity shares issued by the company are of a class of shares already issued and following conditions fulfilled:

- a. The issue of sweat equity shares is authorized by a special resolution passed by the company in the general meeting
- b. The resolution specifies the number of shares, current market price, considerations and the class or classes of directors or employees to whom such equity share to be issued
- c. Not less than one year has at the date of the issue elapsed since the date on which the company was entitled to commence the business;
- d. The sweat equity shares of a company whose equity shares are listed on a recognized stock exchange are issued in accordance with the regulations made the SEBI in this behalf. Provided that in case of a company whose equity shares are not listed on any recognized stock exchange, the sweat equity shares are issued in accordance with the guidelines as may be prescribed

**OR**

**Disclosure of accounting policies**

The view presented in the financial statements of an enterprise of its state of affairs and of the profit or loss can be significantly affected by the accounting policies followed in the preparation and presentation of the financial statements.

The accounting policies followed vary from enterprise to enterprise. Disclosure of accounting policies followed is necessary if the view presented is to be properly appreciated. The disclosure of some of the accounting policies followed in the preparation and presentation of the financial statements is required by some cases

The purpose of AS-1 is to promote better understanding of financial statements establishing through an accounting standard and the disclosure of significant accounting policies and the manner in which such accounting policies are disclosed in the financial statements.

Such disclosure would also facilitate a more meaningful comparison between financial statements of different enterprises

Any change in accounting policy which has a material effect should be disclosed, the amount of such change and financial impact on the current financial period as also in later periods should be appropriately disclosed.

# LS

No of Questions: 20  
No of Pages Printed: 3

Total Marks: 100  
Time Allowed: 3 Hours

## PART I

Question no 1 and 2 are compulsory .Attempt any eight questions from the rest

1) (a) A employs a tailor for a period of one month for making garments out of cloth to be provided by A. The garments stitched by the tailor each day are, at the end of the day, locked up in a box: A leaves the box in the tailor's shop, but takes away the key of the box. One night the box is stolen and the garments are therefore lost. Is the tailor liable to A for the value of the garments lost?

(5 Marks)

(b) Each sub division carries one mark. Pickup the correct answer from the following;

(I) Consent would be considered as free when it is not caused by  
a. Coercion b. undue influence, c. misrepresentation d. all of the above.

(II) A situation of impossibility may arise due to

(i) an unforeseen change in law

(ii) existence of subject matter

(iii) Competency of the parties

(iv) support of foreign countries

(III) Which of the following is irrevocable?

- a. agency for fixed period
- b. agency for single transaction
- c. agency coupled with interest
- d. continuing agency

(IV) In reciprocal promise the first part being legal, the second part is illegal what will happen to the legal and illegal part?

(V) Whether a banker can enjoy the right of general lien for any amount due to him?

(5x1=5Marks)

2) (a) Always Rich company wants to issue shares to the public at a discount. Can it do? If so under what conditions?

(5 Marks)

(b) Each sub-division carries one mark. Answer Yes or No to the following;

- (I) A public limited co will have minimum 5 members  
(II) A private ltd subsidiary of public ltd co is deemed public ltd company

(III) Pick up the correct answer from the following.

A private limited company need not appoint

- a) Director
- b) Managing director
- c) Employees
- d) None of the above

(IV) Conversion of company requires central Govt approval.

- 1) Private co is converted into public ltd co
- 2) Public ltd is converted into pvt ltd
- 3) Holding co is converted into subsidiary co
- 4) Subsidiary co is covered into holding co

(V) In term dividend has to be paid to the shareholders within

- a. 5days b. 10days c. 30days d. 25 days.

**(5x1= 5 Marks)**

3) Explain the entitlement of the following persons to receive bonus under the Payment of Bonus act, 1965.

- (a) A dismissed employee
- (b) A probationer
- (c) A retrenched employee
- (d) An apprentice
- (e) An employee employed through contractors on building operation.

**(5 Marks)**

4) 'A' signs as a maker the blank stamp paper and gives it to B and authorizes him to fill it as a note for Rs.500 to secure an advance which c is to make to B. B fraudulently fills it as a note for Rs.1500 payable to C who has in good faith advances Rs.1500. decide, whether "C" is entitled to recover the amount and if so, upto what extent?

**(5 Marks)**

5) Define basic wages under the Provident Fund and Miscellaneous Provisions Act 1952. **(5 Marks)**

6) 'B', a broker, draws a cheque in favour of 'M' a minor. M endorses the cheque in favour of 'S' who in turn endorses it in favour of 'Y'. Subsequently the bank dishonored the cheque. State the rights of S and Y and whether M can be made liable?

**(5 Marks)**

7) Explain the provisions of Payment of Gratuity Act 1972 regarding eligibility for receipt of gratuity amount.

**(5 Marks)**

8) Briefly mention the provision of Companies Act 1956 relating to pre-incorporation contracts.

**(5 Marks)**

9) What is E filing? Whether forms can be e filed on Sunday?

**(5 Marks)**

- 10) What are the documents required to be filed for incorporation of a company? (5 Marks)
- 11) What are the limitations for alteration of Articles of Association? (5 Marks)
- 12) Explain in brief about authorized share capital subscribed share capital and paid up share capital. (5 Marks)

## PART II

Question no.13 is compulsory. Answer any **two** of the rest

- 13) a) Define business ethics and examine its importance . (5 Marks)  
b) What are the principles of corporate governance? (5 Marks)
- 14) What are the benefits of corporate social responsibility? (5 Marks)
- 15) Explain the elements which will influence ethical behavior in work place. (5 Marks)
- 16) Describe the key elements required by an organization to develop a sustainable innovative organisation. (5 Marks)

## PART III

Question No.17 is compulsory and answer any **two** questions from the rest.

- 17) (a) What are the principles of interpersonal communication? (5 Marks)  
(b) Draft an indemnity bond for obtaining duplicate share certificate. (5 Marks)
- 18) Because of your excellent communication skills, your boss always asks you to write his reports for him. When you over hear the CEO, complementing him on his logical organization and clear writing style, he responds as if he has written all the reports himself. You are angry, but he is your boss. What can you do? (5 Marks)
- 19) Draft the minutes of first annual meeting held on 29<sup>th</sup> September 2007. (5 Marks)
- 20) Mr Ramesh wants to gift his flat situated at Mylapore, Chennai to his sister Ms. Nalini. Draft a gift deed. (5 Marks)

**PRIME ACADEMY**  
**26<sup>TH</sup> SESSION MODEL EXAM**

**PCC - LAW ETHICS & COMMUNICATION (Answers)**

**PART- I**

- 1(a)** Tailor is not liable for the value of the loss. In bailment the bailor has to take care of the goods as a prudent person takes care of the goods. In this problem given ,A is Locking the box and keeping the key himself ends the tailor takes all the care required by him. Because of this when the loss happens the tailor is not responsible and A is responsible for the loss since he is keeping the key with him
- (b)** (i) all of the above  
(ii) an unforeseen change in law  
(iii) agency coupled with interest  
(iv) Legal part is acceptable and illegal part is not acceptable  
(v) Yes bankers enjoy the right of general lien for any amount due to him.

- 2(a)** Yes; Issue at Discount: SEC.79

Shares may be issued at discount only on satisfaction of the following conditions:

Which shares?

The shares must be of the class already issued;

When?

At least one year must have elapsed since the company became entitled to commence business;

Quantum of discount

The rate of discount cannot exceed 10 percent of such higher percentage as is permitted by the C.G. in special cases;

Procedure:

- The issue must be authorised by resolution in the general meeting of the Company specifying maximum rate of discount at which shares are to be issued;
- The resolution must be confirmed by the C.G;
- The shares must be issued within two months of the sanction by the C.G; or within the time extended by it.

Disclosure:

Every prospectus must state the particulars of the discount allowed on the issue of the share, or so much of the discount as has not been written off at the time of issue of the prospectus.

Note: Rules relating to issue of shares at discount do not apply to debentures unless debentures are issued with ultimate objective of converting the into shares.

- (b)** (i) No; 7 members  
(ii) Yes  
(iii) Managing Director  
(iv) Public Ltd is converted into pvt. Ltd.

((v) 30 days

- 3 (a) Yes – Reinstated with back wages  
(b) Yes  
(c) Yes  
(d) Not Entitled  
(e) Not Entitled

4. Can recover Rs.15,000/-U/ Sec 20 in case of inchoate instrument the holder in due course can recover the full amount; if it is under stamped.

5. Basic wages

All emoluments, which are earned by an employee while –

- On duty, or
- On leave, or
- On holidays with wages

In accordance with the terms of the contract of employment and which are paid or payable in cash to him, but does not include:

- a. Cash value of any food concessions;
- b. Any dearness allowance ie. All cash payments, by whatever name called, paid to an employee on account of rise in the cost of living
- c. House rent allowance
- d. Overtime allowance
- e. Bonus
- f. Commission
- g. Any other similar allowance payable to the employee in respect of employment, and
- h. Any presents made by the employer.

6. S and Y cannot claim from M being a minor (Sec 26). S can claim from B and Y from S and B

7. Eligibility for Gratuity ( SECTION 4 (1))

Gratuity shall be payable to an ‘employee’ on the termination of his employment after he has rendered continuous service for not less than five year\*:-

- On his superannuation, of
- On his retirement of resignation, or
- On his death or disablement due to accident or disease
  
- The condition of the completion of 5 years is not essential in case of the termination of the employment of any employee due to death or disablement.

1. Quantum of gratuity ( Section 4(2))

(a) Calculation of gratuity amount payable

i. Ordinary establishments

The employer shall pay the gratuity to an employee at the rate of 15 days wages leased on the rate of wages last drawn by the employees concerned for every completed year of service or part thereof in excess of 6 months.

ii. Seasonal establishments

The employees are classified into two groups;

- Those who work throughout the year
- Those who work only during the season

The former are entitled to get gratuity at the rate of 15 days wages for every completed year of service or part thereof in excess of 6 month.

The latter are entitled to receive gratuity at the rate of 7 days for each season.

(b) Calculation of Wages:

i. Piece rated employees:

Daily wages shall be computed on the average of total wages received by him for a period of three months immediately preceding the termination of his employment. Overtime wages shall not be taken into account for the calculation of total wages.

ii. Monthly rated employees:

Daily wages shall be calculated be dividing the monthly rate of wages last drawn by him be twenty-six.

The number f working days in a month under this section is 26.

(c) Disabled employees:

When a disabled employee is re-employed on reduced wages on some other job, the gratuity will be calculated in two parts-

- i. For the period preceding the disablement-on the basis of wages last drawn by the employee at the time of his disablement
- ii. For the period subsequent to the disablement – on the basis of the reduced wages as drawn by him at the time of the termination of services.

2. For feature of gratuity ( Section 4(6))

If the services of an employee have been terminated for any act, wilful omission or negligence causing any damage or loss to, or destruction of , property belonging to the employer, the gratuity shall be forfeited to the extent of the damage or loss so caused.

The gratuity shall be wholly or partially forfeited if the employee has been terminated for

- i. his disorderly conduct
- ii. any other act of violence on his part

- iii. any act which constitutes an offence in the course of his employment involving moral turpitude

**8. Pre – incorporation contracts:**

Pre – incorporation contracts are those contracts which are entered into by agents or trustees on behalf of a prospective Company before it comes into existence, Eg., with the proprietor of a business to sell it to the prospective company. Such contracts are legally not binding on the company.

- (a) The vendor cannot sue, or be sued by the company, after its incorporation.
- (b) The person who acts for the intended company remains personally liable to the vendor even if the company purports to ratify the agreement, unless the agreement provides that-
  - (i) his liability shall cease if the company adopts the agreement; and
  - (ii) either party may rescind the agreement, if the company does not adopt it within a specified time;
- (c) After incorporation, the Company may adopt the preliminary agreement. But in some cases, the Memorandum directs the Directors to execute such contract. The Company can enforce a pre – incorporation contract if it is warranted by the terms of incorporation and for the purposes of the company.

A pre-incorporation contract can be enforced by and against the company if it is -

- warranted by the terms of incorporation, and
  - it is adopted by the company
- (Sections 15 and 16 of the Specific Relief Act 1963). In such a case, the Directors have no discretion in the matter.

**Imperial Ice Manufacturing Company Vs. Manchershaw**

The promoters of an ice manufacturing company entered into a contract with ‘M’ for the purchase of the ice manufacturing company. The company on formation subsequently adopted the contract and sent the communication of acceptance of ‘M’ Held; the contract was enforceable by or against the company.

**9. E filing is an electronic mode of filing . Ministry of Company Affairs (MCA), Government of India has initiated MCA 21 program, in September 2006 for easy and secure access to MCA services in a manner that best suits the businesses and citizens of India.**

This filing is being done through Digital Signature Certificate (DSC)

- Business enabled to register a company and file statutory documents quickly and easily
- Public to be easy access to relevant records and effective grievances redressal
- Professional to be able to offer efficient services to their client companies
- Financial Institutions to easily find charges registration and verification
- Employees to ensure proactive and effective compliance of relevant laws and corporate governance

E- Filing can be done on any day including Sunday at any time.

**10.** Documents to be filed: After getting the name approved, the following documents along with the application and prescribed fees, are to be filed with the Registrar:

1. Memorandum of Association ( Section 33 (1) (a))
2. Articles of Association, if any ( Section 33(i) (b))
3. The agreement, if any, which the company proposed to enter into with any individual for appointment as its managing or while time director or manager ( Section 33(1)(c))
4. A declaration that the requirements for the Act and the Rules framed there under have been complied with. This declaration is required to be signed by an advocate of the supreme Court of High court or and attorney or a pleader having the right to appear before high court of a secretary, or a chartered accountant in whole time practice in India who is engaged in the formation of a company, of be a person named in the articles as a director, manager or secretary of the Company ( Section (33 (2) )
5. In case of a public company having share capital, where the articles name a person as director/ directors, the list of the directors and their written consent in prescribed form to act as directors and take up qualification shares ( Section 266).

Besides the aforementioned documents, the company must give a notice regarding the situation of its registered office under section 146 within 30 days of registration.

**11.** Limitations for alteration of Articles of Association:

- a) Must not be inconsistent with the Act
- b) Must not conflict with the Memorandum and must not exceed the power given by it.
- c) Must not be illegal or against public policy
- d) Must not be inconsistent with an order of the Court
- e) Must not increase the liability of members.
- f) Must not result in expulsion of a member.
- g) Must not be a fraud on minority or inflict hardship on minority unless the alteration is bonafide and is made for the benefit of the Company as a whole.
- h) Must be for the benefit of the Company
- i) Approval of Central Government is to be obtained if alteration has the effect of converting a public company into a private company.
- j) Alteration may be made with retrospective effect so long as it does not alter things already done by the company.
- k) Alteration that has the effect of increasing the liability of a member to contribute to the company is not binding on a member unless he has agreed thereto in writing.
- l) A reserve liability created u/s 99 cannot be undone / cancelled.
- m) Irregular alteration acted upon for many years is binding on the company.

- n) A Company is not prevented from altering its articles even if such an alteration would result in breach of some contract. The affected party may, however, file a suit for damage for breach of contract. But where the compensation would not be an adequate remedy, the court may restrain the Company from altering the articles.

12.

1.	Nominal / Authorised / Registered Capital	It is the sum stated in the memorandum of Association as the capital of the company limited by shares and is the maximum amount a Company is authorised to raise by issuing shares.
2	Issued Capital	It is that part of the authorised capital which the Company offers for subscription and includes the shares allotted for consideration other than cash.
3	Subscribed Capital	It is that part of the issued capital, Which has been subscribed.
4	Called- up Capital	It is that part of the Subscribed capital which is called – up / demanded on shares by the company.
5	Uncalled Capital	It is total amount not yet called up.
6	Paid-up Capital	It is part of total called – up amount which is actually paid by shareholders.
7	Unpaid Capital	It is that part of the total Called – up capital remaining unpaid.
8	Reserve Capital : Sec.99	<p>It is part of the uncalled capital of Company which the Company, by a special resolution, decides-</p> <ul style="list-style-type: none"> <li>a. Not to call except in the event of the winding up of the Company</li> <li>b. For the purpose of winding up of the company</li> </ul> <p>Reserve Capital is available only for creditors on winding up of the Company. It cannot be charged. It cannot be cancelled in reduction of capital can be reinstated as uncalled capital only with approval of NCLT.</p>

## PART – II

13a.

1. Attention to business ethics has substantially improved society  
A matter of decades ago, children in our country worked 16-hour days. Disabled workers due to industrial accidents were condemned to poverty and often to starvation. There was a time when the prices were fixed by the manufactures and they used practices such as hoarding and black marketing and exploited the consumers to the hilt. However the circumstances have changed and today the market forces are the determinants of price. Employees in the past were ill treated and terminated on basis of personalities. However, today employees are considered as organisation's biggest strength. These changes have been brought about by changes in outlook of the people which is more oriented towards welfare of the people and society. It has also brought about laws and regulations to be introduced by the government.
2. Sound business ethics help maintain a moral course in turbulent times  
Attention to ethics has also helped to maintain a steady outlook even in the face of change. During times of change, there is often uncertainty and this leads to indecision. However sound business ethics helps in ensuring that it is not the case. It helps to ensure that there is clarity in thought and the employees have certain guidelines which they can follow in these changing circumstances. This leads to consistency in actions and behaviour.
3. Ethics helps cultivate strong teamwork and productivity  
Generally in an organisation there is a disparity between the preferred values and the values reflected at the work place. Stressing the need for ethics in a workplace helps in building openness, integrity, a strong teamwork and unity amount members is critical for improving productivity in an organisation as the employees being to understand each other and help each other which in the long run benefit the organisation. The employees align themselves to these values over a period of time and abide by them religiously.
4. Ethics support employee growth  
Attention to ethics prepares the employees to face the most difficult scenarios in the right spirit and gain confidence of dealing with complex work situations
5. Ethics programs ensure that the policies are legal  
Each organisation has a well drafted personnel policy to ensure ethical treatment of the employees. Eg: in matters of hiring, firing etc. An employer is bound by whatever he promises the employee at the time of employment. The employees can take action on legal counts if the employer has failed to live by his word. This applies to other areas

such as promotion as well, where ethical codes of conduct are defined and are to be followed. Attention to ethical procedures also help the organisation to attract employees, as a recent survey shows that employees prefer organisation with high ethical behaviour. Organisation have understood the need and importance of a good ethical structure and are willing to spend in order to get one.

6. Ethical programs help to avoid criminal acts of omission and can lower fine  
Ethical programmes once introduced help the organisation to filter unethical policies and procedures in an organisation and help cleanse the organisation. This helps the organisation in the long run as it helps to safeguard their name and also avoids possible future legal action.
7. Ethical programs help to manage values associated with quality management, Strategic planning and diversity management  
Ethical programs help in identifying preferred organisational values and ensuring that the organisational behaviours are aligned with those values. In order for the organisation to be successful, it needs to implement values which are in line with preferred values. Ethical programs help achieve this objective. This overall effort is very useful for several other programs in the workplace that require behaviours to be aligned with values, including quality management, strategic planning and diversity management. Total quality Management includes high priority on certain operating values, e.g., trust among stakeholders, performance, reliability, measurement, and feedback. Ethics management techniques are highly useful for managing strategic values, e.g., expand market share, reduce cost, etc. Diversity programs require recognizing and applying diverse values and perspectives which are the basis of a sound ethics management program.
8. Ethics promote a strong public image  
Attention to ethics is helpful as it helps an organisation carve a niche for itself in the business world. High compliance with ethics will help an organisation to establish goodwill with the people which will make it strong in the long run in the face of increasing competition in the business world. People appreciate organisations which value ethics and operate with utmost integrity and honour.
9. Overall benefits of ethics  
Managing ethical values in the workplace legitimizes managerial actions, strengthens the coherence and balance of the organization's culture, improves trust in relationships between individuals and groups, supports greater consistency in standards and qualities of products, and cultivates greater sensitivity to the impact of the enterprise's values and messages.
10. Last and most – formal attention to ethics in the workplace is the right thing to do.  
Thus, ethics helps an organisation for its own good, the good of its stakeholders and the good of the environment as a whole.

## **b. Principles of Corporate Governance**

Commonly accepted principles of Corporate Governance include:

- a. Rights and equitable treatment of share holder:  
Organisations can help shareholder exercise their rights by effectively communicating the information that is understandable and accessible and encouraging share holders to participate in general meetings.
- b. Interests of other stakeholders:  
Organisations should recognize that they have legal and other obligations to all stakeholders.
- c. Roles and responsibilities of the Board:  
The Board needs to have various skills to effectively deal with business issues and challenge management performance. It should consist of appropriate mix of persons and the key roles should not be held by same person. ( Eg: CEO and Chairperson)
- d. Integrity and ethical behaviour:  
Organisations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.
- e. Disclosure and Transparency:  
Organisations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear and factual information.

## **14. Benefits of Corporate Social Responsibility:**

Corporate social Responsibility confers the following benefits:

1. Improved financial performance:  
Though, it might appear that there is no real connection between socially responsible business practices and positive financial performance, empirical studies have revealed that financial performance of CSR companies was better than that of the remaining companies.
2. Reduced operating Costs:  
CSR initiatives can cut down operating costs effectively. Eg. Recycling initiatives of waste- disposal costs, reduced absenteeism and increased retention of employees.
3. Brand Image and reputation:  
Socially responsible companies can benefit from its enhanced reputation and better public image. They can gain public confidence and this will help them in mobilizing capital

4. Increase in profits and customer loyalty:  
Because of brand image, companies involved in CSR will be able to generate more consumers and as a result increased sales, will increase profits, Corporate Social Responsibility of companies will help in gaining customer loyalty.
5. Increased Productivity and Quality:  
Good working conditions, lesser environmental impact, employee involvement in decision-making leads to increased productivity and quality of the goods and services.
6. Increased Ability to Attract and Retain Employees:  
Companies having strong CSR commitments find it easier to recruit and retain employees, resulting in a reduction in attrition rate and training costs.
7. Reduced Regulatory Oversight:  
Companies that satisfy corporate Social Responsibility are given more free reign by both national and government entities. Such companies are subject to fewer inspections and paper work and preference will be given” fast-track” treatment when applying for governmental permission.
8. Access to Capital:  
CSR Companies with strong CSR performance have increased access to capital as they gain public confidence and loyalty.

**15. Importance of Ethical behaviour at the work place:**

In today’s business environment every business organisation has employees who hail from diverse cultural and religious backgrounds and whose outlook on ethics might be completely different and may even be contrasting in some cases. It is therefore the role of an employer to lay down a clear code of ethics prescribing what is right and wrong, in order to achieve uniformity in action and eliminate any scope for ambiguity. In the absence of a clearly defined code of conduct, the enterprise might have to face a lot of problems of the following nature:

- i. Inability to retain and attract to people.
- ii. Inherent risk of employees making unethical decisions.
- iii. increased tendency of employees to complain on ethical issues thereby, wasting time of majority of the managers in solving ethical cases between employees and thereby affecting work schedules
- iv. Loss of reputation to the company in industry as well among the customers due to low ethical values.
- v. Associated outcomes of the above are loss in market share leading to reduced sales and scope for future sales thereby significantly affecting the revenues of the company.

- vi. Finally, in the long term effect of this would be that it would render the company unprofitable and the company would have to be shutdown.

All successful organisations have a well defined code of conduct which might be written or oral and are to be followed by the employees in order to ensure that they continue to remain successful.

**16. Key Elements:**

- 1..Air Pollution
- 2 .Global warming
- 3 Ozone Depletion
- 4...Acid Rain
- 5.Water Pollution
- 6.Land Pollution
- 7.Depletion of Fossil Fuels

Industrial and technological development has provided us with material prosperity but has also created unique environmental threats to us and to future generations. as the twenty-fist century begins, several well-established environmental trends are shaping the future of civilization – rising pollution, global warming, falling water tables, shrinking forests, and the loss of plant and animal species. the extent of the environmental damage produced by present and projected industrial technology makes one wonder how long this kind of development would be sustainable.

**Sustainable Development:**

Literally sustainable development refers to maintaining development over time. most widely cited definition of sustainable development is 1”development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. a nation or society should satisfy its requirements- social, economic and others-without jeopardizing the interest of future generations.

High economic growth means high rate of extraction, transformation and utilization of non-renewable resources. the concept of sustainable development was brought into focus by brundtland report, which stated that economic growth has to be environmentally sustainable. there is no economic growth without ecological costs.. one must realize that increased development and higher GNP are related to environmental damage and resource depletion. Therefore, an element of resource regeneration and positive approach to environment have to be incorporated in developmental programmes. there is no doubt that twenty first century markets shall be driven by the requirements of sustainable environments.

### PART III

17a)

1. Principals of interpersonal communication:

a. *Unavoidable:*

Communication is unavoidable. If communication does not take place through words we communicate with the tone of voice, gesture, posture, facial expression etc.

b. *Irreversible:*

There is a Russian proverb "Once a word goes out of our mouth, you can never swallow it again", One cannot take back the words uttered. Therefore it is wise to think a couple of times on what one is going to speak before actually speaking

c. *Highly Complicated:*

This is due to the fact that words do not have an inherent meaning. We use them in certain ways and there is a difference in the usage of words by different people. So no form of communication is simple as a number of variables are involved.

d. *Contextual:*

There are 3 types:

Situational - deals with "psycho – social – where" one is communicating.

Environmental - deals with the "physical place – Where" one is communicating

Cultural - deals with learned behaviours and rules that affect interaction.

#### **b) Indemnity Bond**

A contract of indemnity as defined under Section 124 of the Indian Contract Act, 1872 is a contract by which one party promises to save the other from loss or cost to him by the contract of the promisor himself or by the contract of any other person. A person who gives the indemnity is called indemnifier and a person for whom protection is given is called the indemnity holder. The model form of indemnity bond is given below:

Name of the Share Holder:

Share Certificate No. and Distinctive No. of shares:

I. .... son / wife/ daughter of ..... Resident of ..... do hereby agree to indemnify the Company for any loss that may occur on giving credit for the Certified Photostat copies of the Share Certificate/ ...../...../..... for a sum of Rs..... being ..... % of my share in the total shareholding of Rs. .... of ..... I further declare that the amount of share Certificate was not claimed in the hands of the shareholders.....

Date:

Signature:

Place:

18. The problem involves unethical communication. The employee overheard, the Boss when he was complimented by CEO on his logical organization and clear writing style, he responded as if he has written all those reports himself. In the circumstances how to handle the situation?

One has to confront unethical behavior when observes it even though it was committed by his Boss. In the above situation two options are available. 1) To speak or To remain silent. The first option is better than second option.

The best course of action is to get appointment with BOSS preferably on the next day and to have frank discussion with him. No feed back need to be given to CEO. The situation has to be handled very diplomatically and sorted out by discussions only. Ultimately the boss will understand the situation and appreciate the performance of the employee thereafter..

19. Minutes of First Annual general meeting

[Specimen]

First annual general meeting held at

Place ; Chennai

Date ; 29.9.07

Time ; 11 am

Present

1. Shri..... In the chair
2. shri..... Directors
3. .... Members in person and
4. .... Representative of ..... CA
5. .... Secretary

1.Notice

The notice convening the meeting was read by the secretary.

2.Director's Report and accounts

With the consent of the members present, the directors report and accounts having already been circulated to the members were taken as read.

3.Auditors's Report

The Auditor's Report was read

4. Adoption of Directors Report, etc.

The chairmen then invited queries from the members present on Directors report Accounts and Auditors and auditor's Report, but there was no query. Thereafter, the Chairmen proposed the following resolution which was no query. Thereafter, the Chairmen proposed the following resolution which was seconded by.....

“Resolved that the Directors' Report, audited Balance Sheet as on 31<sup>st</sup> march, 2007 and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2007 and Auditors' Report thereon be and the same are hereby received, considered and adopted.”

Carried unanimously.

5. Dividend

Proposed by shri .....

Seconded by shri .....

“ Resolved that the Dividend as recommended by the Board of Directors for the year ended 31<sup>st</sup> March, 2007 at the rate of Rs. .... Per share on the equity share capital of the company, subject to deduction of tax at source be and is hereby declared for payment to those shareholders whose names appeared on the Register of Members as on ..... 2007.”

Carried unanimously

6. Directors

Proposed by .....

Seconded by .....

“Resolved that Shri ..... who retires by rotation and is eligible for re-appointment to and is hereby re-appointed a director of the company.”

Carried unanimously.

7. Auditors

Proposed by .....

Seconded by .....

“Resolved that M/s ..... Chartered Accountants, be and are hereby appointed Auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting at a remuneration of Rs. ....

Carried unanimously.

The meeting closed with a vote of thanks to the Chair.

Dated ..... 2007.

20. Simple form of Gift Deed

KNOW ALL MEN BY THESE PRESENTS that I,B. RameshS/o R. Bala r/o\_99, Nallavan Street, Royapettah, Chennai 600014, transfers voluntarily, the property bearing 00099/2008situated at Adyar, Chennai, 600020 (more particularly described in the schedule annexed hereto, the estimated value of which is Rs.\_5,00,000 ( Rupees Five Lakhonly) to my sister Ms.Nalini. D/o of R.Bala. ( hereinafter referred to as “ the donee”) To Hold the same to the donee absolutely forever. I further declare that the said gift has been made by me of my natural love and affection for the donee and the same has been accepted by the donee.

IN WITNESS WHEREOF , I have executed this deed on Fri day

Witness:

- 1. DONOR
- 2. DONEE

I, Ms.R. Nalini the donee hereby accept the gift do the said property.

