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INTERMEDIATE EXAMINATION

December 2011

I-P6(CIA)
Syllabus 2008

Commercial and Industrial Laws and Auditing

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Answer Question No. 1 and Question No. 5, which are compulsory and attempt any two from the rest in Section I and any two from the rest in Section II.

SECTION I (50 Marks)
(Commercial and Industrial Laws)

1. Comment on the following based on legal Provisions (no marks for wrong reasons or justification): 2×7
 - (a) An employee desirous to contribute 20% of salary as against 12% towards P.F. contributions (8% being voluntary) and demand that employer shall also contribute 20%. 2
 - (b) An young employee disagreed to work on dangerous machines in a factory.
 - (c) Mr. A. B. Roy a dissatisfied worker willfully causing damage of a machine. Employer had to spent Rs. 10,000/- to get the machine rectified. Hence his gratuity was forfeited.—Whether justified. 2
 - (d) A stock of bark was sold at an agreed price per tonne. The bark was to be weighed by the agent of seller as also by the buyer for ascertainment of price. A part of the bark was weighed and carried away by the buyer's agent on 12.11.11. On 13.11.11, the remaining stock was swept away by flood. Who will bear the loss and why?
 - (e) Mr. Ray made a contract with Mr. Basu to grow vegetables on Mr. Ray's land and to deliver to Mr. Basu at a fixed rate. Mr. Karmakar guarantees Mr. Ray's performance of this contract. Mr. Basu diverts stream of water which is necessary for production thereby prevented Mr. Ray to grow vegetables. Mr. Ray fails to supply as per contract. Hence Mr. Basu sues Mr. Karmakar (guarantor), for non-performance.—Advise. 2
 - (f) A minor can neither undertake liabilities nor receive benefit under the contract.—Comment.
 - (g) All the members of a limited partnership firm are "designated members". 1
2.
 - (a) Mr. Ardhendu and Mr. Barun entered into a contract to build a house for a specified consideration Clause 14 of contract provides that in case of disputes, neither party may move Court of Law but must accept the decision of an Arbitrator named in the contract. Does this clause violate the provisions of law? 2 3
 - (b) An illegal agreement is void but void agreement is not necessarily illegal.—Explain. 2 3
 - (c) Mrs. Kamini purchased a tin of standard quality kerosene oil from a dealer of repute. When part of the kerosene was put to use in a stove for cooking, an explosion occurred causing damage. Mrs. Kamini claims damages from the dealer who refuses, to pay damages. Offer your views based on provisions of sale of Goods Act. 3 4
 - (d) Mr. Malhotra purchased one micro oven on 30.03.11 at a cost of Rs. 18,000/- with one year guarantee through an authorized dealer. Some defects were occurred in the month of November, 2011. You are to answer:
 - (i) Whether Mr. Malhotra can submit complain, if so to whom he is to file? 1
 - (ii) Whether appeal can be filed by the aggrieved consumer/complainant if the decision of the Authority is not favourable? The time limit if any for submission of appeal. 1+1
 - (e) Under Payment of Bonus Act number of days actually worked is one of the conditions and therefore state the method of calculation of working days. 3
 - (f) Bill of Exchange dated 1st February, 2011 payable two months after date—was presented to the maker for payment 10 days after maturity. What is the date of maturity? 2 2

Please Turn Over

3. (a) "Void Agreement" and "Void Contract" are same.—Offer your views based on Rule Provision. 2 4
- (b) Mr. Barick owe Banker a debt guaranteed by both Mr. Arora and Mr. Bora. The Banker releases Mr. Arora one of the co-surities. Hence the remaining i.e. other surity (Mr. Bora) is also released automatically. Offer views. 2
- (c) Mr. Ambika an agent of a buyer obtained goods from Railways and loaded such goods on his truck on 02.11.11. In the meantime, the Railways received a Notice from the seller (i.e. consignor) for stopping goods in transit as the Buyer become insolvent. Referring to the provisions of the Sale of Goods Act, 1930 decide whether the Railways can stop goods in transit as instructed by the seller? 2
- (d) Mr. Paul sold to Mr. Ray certain quantity of foreign refined palm oil warranted equal to sample. The samples consisted of palm oil mixed with vegetable oil. The oil tendered corresponds with the sample but it was not such as is known in market as foreign refined palm oil. Mr. Ray wants to reject the oil on the ground that the oil supplied was not in accordance with the foreign refined palm oil. Advise Mr. Ray. 2
- (e) Mr. Singh is engaged in two types of jobs in a factory that of a welder and security guard. As the wage rates are different for two different jobs, the employer calculates his minimum wages at an average rate.—Whether this is correct. 2
- (f) The employer is not liable to pay any wages or compensation to workman when an undertaking closes down.—State legal position. 2
- (g) Mr. Saxena on superannuation on 30.09.2011 submitted an application in prescribed form to his employer on 05.10.2011 for payment of gratuity of Rs. 15,00,000/-. He has not received any payment till 10.12.2011 inspite of reminders. Advise the steps to be taken by him and the benefits which he may receive. 2 4
4. (a) Write short notes on any four: 2 4
- (i) Agency by ratification;
 - (ii) Transfer of Property in Unascertained Goods;
 - (iii) Safety Officers (Factories Act);
 - (iv) Information (RTI Act, 2005);
 - (v) When Compensation is not Payable (Workmen's Compensation Act, 1923).
- (b) Room air conditioner which was purchased by Mr. Rajesh a practising Cost Accountants for his office stopped working within 3 months of purchase. There was a warranty of free service for one year. Both the dealer and manufacturer refused to attend the defect. Advise Mr. Rajesh whether he can make complaint under Consumers Protection Act. 2

SECTION II (50 Marks)

(Auditing)

5. Comment on the following statements based legal provisions (no mark for wrong reasons or justification): 2×7
- (a) Ratio analysis only highlights symptoms.—Comment.
 - (b) Automated data Processing Audit and Information Technology Audit are same.
 - (c) Vouching can be avoided.
 - (d) When a company appoints Joint Auditor, auditors' liability and responsibility are increased because an auditor is made responsible for the audit work of another auditor.

- ✓ (e) Best Ltd. has not deposited provident fund contributions of Rs. 10,00,000/- to the Provident Fund Authority but accounted for in the Accounts. 2
- ✓ (f) For an internal audit function to be effective, the same must be independent of the activities to be audited. 2
- ✓ (g) Financial Institutions conduct Management Audit of a company.—State under what circumstances. 2
6. (a) Explain the concept of materiality in auditing. 2
- (b) Find out the difference between India GAAP and US GAAP in respect of "financial statements". 2
- (c) ABC Ltd. requested the Statutory Auditor for issue of certificate to comply with the conditions of corporate governance under clause 49 of listing agreement. What points shall be checked before issue of such certificate. 2
- ✓ (d) Mr. A. B. Ray, Chartered Accountants in practice has been appointed as the Statutory Auditor by ABC Ltd. in its AGM held on 30.09.2011. The Auditor purchased goods from the said company. The amount outstanding exceeded Rs. 2,000/-. Similar credit facilities is allowed to other customers also. State the legal consequences. 2
- ✓ (e) How the following are dealt with in the Audit Report under CARO, 2003: 2+2
- (i) Fixed Assets, 2
- (ii) Guarantees for loan taken by others. 2
- ✓ (f) What are the items to be checked in connection with physical verification of Fixed Capital Assets. 2
- ✓ (g) What are the factors to be considered to determine the effect of computer information system on audit. 2
- ✓ (h) Scope of Management Audit is limited to achieve better means of control only. Do you agree? Give correct answer. 2
7. (a) What are the activities considered by the Management Auditor in its review of industrial engineering management? 2
- (b) Board of Directors of Evershine Ltd. in its meeting held on 11.08.2011 declared and paid final dividend of 30% for 2010-11. As an Auditor how you will react? 2
- (c) As a statutory auditor of a company, how you will verify the petty cash? 2
- ✓ (d) Statutory auditor cannot avoid the generally accepted fundamental assumption underlying the preparation of financial statements. State such assumptions and actions to be taken if not followed. 2
- ✓ (e) What is expected under CARO in respect of 2+2
- (i) Default in repayment of dues, 2
- (ii) Application of term loans? 2
- ✓ (f) Advise with reasons whether CARO 2003 is applicable to ABC Pvt. Ltd. which is having following balances in Balance Sheet on 31.03.2011: 2
- | | Rs. | |
|--------------------------------|---------|---|
| Paid up Capital | 55 lacs | |
| Reserve & Surplus | 5 lacs | |
| Assets | 40 lacs | 2 |
| Misc. Expenses not written-off | 20 lacs | 4 |
- ✓ (g) What are the general internal control and application control in a computer based system? 4

Please Turn Over

8. (a) Balance Sheet of holding company to include certain particulars as to its subsidiaries.—State such particulars u/s. 212. 4
- (b) Central Government issued order for audit of Cost Accounts of ABC Ltd. u/s. 209(i)(d). In view of this, state the following:
- (i) Who appoints the Cost Auditor?
 - (ii) Whether Company's Statutory Auditor can conduct Cost Audit?
 - (iii) To whom the Cost Audit report is submitted?
 - (iv) Time limit within which such report is submitted by the Cost Auditor. 4
- (c) (i) The patterns and degree of internal control may vary between organisation to organisation due to certain variable factors. Name at least six such factors. 3
- (ii) As an internal auditor how you will verify the amount due to subsidiary companies? 2
- (d) (i) What are the points an auditor should consider for IT Audit in respect of system development? 2
- (ii) There is no need to design better internal controls in an EDP or computerised system.—State the correct position. 3
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