www.icwaportal.blogspot.com

PAPER - 6

COMMRCIAL AND INDUSTRAL LAW AND AUDITING

TEST PAPER - I/6/CIA/2008/T-1

PAR- A

1a Comment on the following:

i) Here Y has no right to get the damages from the auctioner X for the Loss of his time and expenses.

ii) It is valid here because this consent is free as of not caused by coercion, undue influence, fraud and misrepresentation or mistake.

iii) The cheque which is signed by B is void because he has to sign in the front of the cheque also.

iv) B Can't sue Y as because the bike has been sold out and the good is transfered from Y to B. So Y is not Liable for any damage caused to the bike.

v D can claim the compensation provided if he is not drunk or if he does not take any kind of drugs.

icwa Portal

www.icwaportal.blogspot.com

vi The Complaint will be valid if the installation pice is more than 20 Lakhs but less than 1 crore.

vii) A will return the bonus which is 20% of the salary i.e. Rs2000/- and he will keep the rest of Rs 1000/-

viii In this case Y was the guaranter of the Loan, and he is liable for the Contract

X Limited ~~Pan~~ Liability partnership is distinct from limited partnership because limited Liability is granted to all partners not to set of non managing limited partner. It is similar to Shareholder of a Corporation.

2(a)

Essential Element of valid Contract.

The following essential element must Co-exist in order to make a valid Contract:

(a) All agreement are contract if they are made by the free consent of parties Competent to contract for a lawful Consideration and with a lawful object and are not hereby expressly declared to void.

www.icwaportal.blogspot.com

(i) One of the essential element of a vaild contract is that there should be free consent of the concerned parties to the contract. Two or more persons are said to consent when they agree upon the same thing at the same time.

Consent is said to be free when it is not caused by
Coercion, undue influence, or fraud, misrepresention or Mistake.

(H) ~~Comp~~.

(ii) Competent.

Every person is competent to contract who is of the age of ~~Major~~ Majority according to the law to which he is subject, and who is of sound mind, and is not disqualified from contracting by any law to which he is subject.

(iii) Sound mind and unsound mind.

A person is said to be of sound mind for the purposes of making a contract if, at the ~~the~~ time when he make it he is capable of understanding it and of forming a rational judgment as to its effect upon his interest.

icwa portal

www.icwaportal.blogspot.com

(b)

(a) A person cannot enter into a contract if:-

(i) If he is not of the age of majority according to the law to which he is subject.

(ii) If he is not a sound maind or lunitic

(iii) If he disqualified from contracting by any law to which he is subject.

(c)

Void and illegal agreement

(i) Scope

An illegal agreement is always void. while a void agreement may not be illegal, being void due to some faction. Eg. an agreement the terms of which are void but not illegal.

(ii) Effect of collateral transaction

If an agreement is merely void and not illegal, the

www.icwaportal.blogspot.com

Collateral transaction to the agreement may be unforced for execution but collateral transaction to an illegal agreement also become illegal and hence cannot be enforced.

(iii) Punishment

Unlike illegal agreement there is no punishment to the parties to a void agreement.

iv Void ~~ab~~-initio

Illegal agreement are void from to very beginning but sometime valid contacts may subsequently become void.

3(a)

(i) Available Surplus:-

The available surplus in respec of any accounting year shall be the gross profit for the year after deduction therefrom the sums referred to in sec-6

(a) The gross profit for that accounting year after deduction ther from the sum referred to is sec-6 ~~and~~

www.icwaportal.blogspot.com

An amount equal to the difference between

i) The direct tax calculated is a accordance with the provision of section 7 in respect of an amount equal to the gross profit of the employer for the immediately preceding accounting year.

ii) The direct tax calculated in accord. with the provision of section - 7 In respect of an amount equal to the gross profit of the employ for such ~~process~~ proceeding accounting year after deducting therefrom the amount of bonus which the employe has paid or liable to pay his employees in accordance with the provision of this act for that year.

ii) Gross Profit

The gross profit derived by an employer from an establishment in respect of any accounting year shall:

(a) In case of banking company be calculated in its manner specified in the first schedule

(b) In any other case be calculated in the manner specified in the second schedule.

www.icwaportal.blogspot.com

(ii) ~~Sum deductible~~ from Gross Profit

The following Sum shall be deducted from gross profit as from Charges namely.

(a) Any amount by way of depreciation admissible in accordance with the provision of sub-section (1) of Sec - 32 of the income tax Act or in accordance with the provision of agricultural income tax Law as the case may be provided that where an employe has been paying bonus of his employees under a settlement or an award or agreement made befor the 29th may 1965 and subsiting on that date after deducting ~~go~~ from gross profit normal depreciation then the amount of depreciation to be deducted under this clause shall at the option of such employer continue to be such national normal depreciation.

(b) Any amount by the way of depreciation rebate or investment allowance or ~~dep~~ development allowance which the employ is entitled to deduction from his income under the income tax Act.

(c) Such further are specified in the respect of employer in the act.

icwa Portal

www.icwaportal.blogspot.com

36.

(i) wages

wages in relation to payment of ~~Or~~ Gratuity Act. 1972 means all emolument which are earned by an employee while on duty or on leave in accordance with the term and Condition of his employment and which are paid or are payable to him in cash includes dearness allowance but does not include any bonus commission, house rent allowance overtime wages and any other allowance.

(ii) Rate of Gratuity

Gratuity is payable @ 15 days wages for every year Completed service or paid thereof in excess of six month in case of seasonal establishment gratuity payable @ 7 day of wages for each Season, wages will include basic and dearness allowance, the daily wages is respect of pre rated employees, are to be computed on the average of the total wages earned by an employee for a period of 3 month the maxium amount of gratuity is payable Rs 3.5 Lacks.

www.icwaportal.blogspot.com

PART - B
AUDITING

6(i) Auditing in India can be traced back to the day of vedas. True

(ii) The concept of evidence in fundamental to Auditing. True

(iii) Test checking approach and randaum sampling approach are same. False

IV By obtaining inventory valuation certificate from management, the auditor is no longer responsible for verifying closing stock.

V Indirect expenditure to construction of a project should not be capitalized. False

VI National Advisory Committee on Accounting standard may be constituted by Central Government u/s 210A True

VII An Auditor is always appointed by passing a special resolution to this effect.

7a

Importance of Audit working Paper.
Working papers all those papers which contain essencial facts about accounts so that they auditor may not have again to go over the

icwa Portal

www.icwaportal.blogspot.com

the account ~~of~~ his client incase he wants to refer to them later on during the cource of the audit eg:-

(i) Audit programme duly completed showing the nature of work the content of checking in this initial of persons who have done that work.
(ii) working Trial Balance
iii) The schedule of the debtor and creditors, fixed assets investment etc
iv. adjusting journal entries.

~~Important~~

Importance.

1) In order to support the auditor report these paper show in detail the work performed by the audit clerk.
2 The auditor can perform an opinion about the efficien or otherwise of the ~~auditor~~ clerks.
3 The preparation of the working paper is a mens to given training to ~~as~~ audit clerk as to know to summerise the work done by them.

Icwa Portal

www.icwaportal.blogspot.com

4 The working paper help the auditor to plan for the succeeding year
5 The working paper helps the creditor to ~~pr~~ prepar the report without wasting much time.
6 He can know that his assistant had followed his instruction.
7 Future audit can be carried on in same sequence on the basis of previous working paper.

nce

~~8~~

7(b)

Factors to be considered while drafting an Adult Report.

The main factor to go into consideration for making the audit report are as follows.

(i) Nature of business of organization
ii Nature of the subject approched.
~~iii Nature of~~
(iii) For whom the report is mentend
~~iv~~i purpose for which the report is prepard.
V management attitude direction and trade.
Vi extent of enphasis on audit findings and recommodation
Vii Extent of detailed requirement by auditor and mangement.

icwa Portal

www.icwaportal.blogspot.com

8a.

Audit Risk

A risk occurring due to evidence collection the auditor to express his opinion on the financial Staten is called audit risk. According A ASB" audit risk means risk that the auditor given an ~~ea~~ inappropriate audit opinion when the financial statement are materially ~~audit~~ miss-states

Thes audit risk has 3 compon-nts as stated by IFA

(I) Internal risk

Risk that material error will remain

(ii) Control Risk

Risk that clients internal Control System cannot prevent or make up for such error.

iii Detection Risk

Risk that material error through they a these, will not be detected.

Relation between Materiality and Audit Risk

According to AAB there is an inverse relationship bet~~ween~~ materiality and audit risk and lower

icwa Portal

www.icwaportal.blogspot.com

the materiality level the higher the and risk of the risk that a particular account balance of class of transaction could be mis-stated by an extremely large amount might be very less but the risk that be mis-stated by an extremely small amount might very high.

8(b)

(i) Contingent Liability

The liability which depends on happening or not happing something is called as congent liability. This liability may involve payment of revenue nature incurring loss or involves the acquisition of asset. It is appeared in the liability side of the balance sheet.

(ii) ~~The following poin stow the auditor wi should keep in mind while verifying contingent liability.~~

(1) An auditor should carefully verify by keeping in mind the following point in case of contingent liability

icwa Portal

www.icwaportal.blogspot.com

(a) Obtain certificate about the contingent liability mentioned in the balance sheet from a responsible officer

(b) Carefully examine whether such liability exists or not

c Check relevant document to confirm the existence of contingent liability.

d Verify whether provision is made or not for the contingent liability turned out to be an actual liability

e Verify discounting register, minutes books and other relevant records to establish the amount of contingent liability, and

(f) See whether contingent liability is properly disclosed in the balance sheet.

ICWA Portal