

Paper-6: COMMERCIAL AND INDUSTRIAL LAWS AND AUDITING

Full Marks: 100

Time Allowed: 3 Hours

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

- Please: (i) Answer all bits of a question at one place
(ii) Open a new page for answer to a new question
(iii) Attempt the required number of question only.

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)

Question 1: Answer all questions

[2 X 7 = 14]

(i) H lends a sum of ₹15,000 to D, on the security of two shares of a Limited Company on 1st April 2011. On 15th September, 2011, the company issued two bonus shares. D returns the loan amount of ₹15,000 with interest but H returns only two shares which were pledged and refuses to give the two bonus shares. Advise D in the light of the provisions of the Indian Contract Act, 1872.

(ii) Mr. D of RB Textile Ltd. enters into a contract with RS Garments Show Room for supply of 1,000 pieces of Cotton Shirts at ₹300 per shirt to be supplied on or before 31st December, 2011. However, on 1st November, 2011 RB Textiles Ltd informs the RS Garments Show Room that he is not willing to supply the goods as the price of Cotton shirts in the meantime has gone up to ₹350 per shirt. Examine the rights of the Retail Garments Show Room in this regard.

(iii) B holds agricultural land on a lease granted by A, the owner. The land revenue payable by A to the Government being in arrear, his land is advertised for sale by the Government. Under the Revenue law, the consequence of such sale will be termination of B's lease. B, in order to prevent the sale and the consequent termination of his own lease, pays the Government, the sum due from A. Referring to the provisions of the Indian Contract Act, 1872 decide whether A is liable to make good to B, the amount so paid?

(iv) G's goods were seized by Custom Authorities. Whether this is bailment under Indian Contract Act, 1872?

(v) In an agreement between P and Q, there is a condition that they will not institute legal proceeding against each other without consent. Is the contract valid or void?

(vi) R sent a consignment of goods worth ₹ 160,000 by railway and got railway receipt. He obtained an advance of ₹80,000 from the bank and endorsed and delivered the railway receipt in favour of the bank by way of security. The railway failed to deliver the goods at the destination. The bank filed a suit against the railway for ₹ 160,000. Decide in the light of provisions of the Indian Contract Act, 1872, whether the bank would succeed in the said suit?

(vii) What is the permissible limit of deductions from wages under the Payment of Wages Act, 1936.

Question 2:

- (i) What is meant by Anticipatory Breach of Contract?
- (ii) What is meant by 'Undue Influence'?
- (iii) State the circumstances where under an agent is personally liable to a third party for the acts during the course of agency?
- (iv) When a contract need not be performed?
- (v) A sold his car to B for ₹175,000. After inspection and satisfaction, B paid ₹87,500 and took possession of the car and promised to pay the remaining amount within a month. Later on A refuses to give the remaining amount on the ground that the car was not in a good condition. Advise A as to what remedy is available to him against B.
- (vi) K the owner of a Fiat car wants to sell his car. For this purpose he hands over the car to M, a mercantile agent for sale at a price not less than ₹100, 000. The agent sells the car for ₹75,000 to B, who buys the car in good faith and without notice of any fraud. M misappropriated the money also. K sues B to recover the Car. Decide given reasons whether K would succeed.
[2+4+4+2+3+3 = 18]

Question 3:

- (i) Fortunate Ltd. was running in continuous losses for 7 years. As a result, the company's financial position worsened. The company declared lay-off of 25 of its employees. The employees protested the lay-off. Is this action of employer justified?
- (ii) An electrician, who had to go frequently to a heating room from a cooling plant, contracted pneumonia which resulted in his death. Is the employer liable to pay compensation under the Employees Compensation Act, 1923?
- (iii) F failed to give details of travelling expenses on account of tour inspite of several reminders. His company deducted the amount of tour advance from F's salary after expiry of 3 months. Is the company justified under the Payment of Wages Act, 1936?
- (iv) X, an out worker prepared goods at his residence and later on supplied these goods to the M/s ABC . Is he an employee under the Minimum Wages Act, 1948?
- (v) Y, on retirement withdrew the entire amount of his accumulation in the provident fund. Later on, he was re-appointed for a fixed tenure. The PF Inspector claimed contribution in respect of salary paid to Y. Is the demand made by PF Inspector tenable in law under The Employees 'Provident Funds and Miscellaneous Provisions Act, 1952?
- (vi) What are the consequences of "destruction of goods" under the Sale of Goods Act, 1930, where the goods have been destroyed after the agreement to sell but before the sale is affected.
- (vii) G absented himself from duty without applying for leave and left the job. When he claimed gratuity, the company refused to pay gratuity quoting his absence from duty without proper leave resulted in break in service. Will he get gratuity?

[3+2+2+3+2+3+3 = 18]

Question 4:

- (i) Explain the term 'Arbitration' for resolution of industrial dispute under the Industrial Dispute Act, 1947.
- (ii) What is the procedure of fixing minimum wages under the Minimum Wages Act, 1948?
- (iii) S delivered his car to M for repairs. M completed the work, but did not return the car to S within reasonable time, though S repeatedly reminded M for the return of car. In the meantime a big fire occurred in the neighborhood and the car was destroyed. Decide whether M can be held liable under the provisions of the Indian Contract Act, 1872.
- (iv) Explain the term 'designated partners' under LLP Act, 2008.

[5+5+2+6 = 18]

**Section-II
(50 Marks)
(Auditing)**

Question 5: Answer all questions

[2 X 7 = 14]

Comment on the following:

- (i) Foreign branch of a company can be audited only by an auditor of that country.
- (ii) Sec 292A of the Companies Act, 1956 lays down auditor's duty as a member of Audit Committee.
- (iii) The scope of verification is much wider than that of vouching.
- (iv) The auditor can rely on work of an expert of valuation of assets.
- (v) As per Indian GAAP, where the company has obtained credit limits from a bank but has not availed them, the details of unused credit lines need not be disclosed in the financial statements.
- (vi) The Cost Auditor of a company cannot function as an internal auditor of the same company.
- (vii) The system of propriety audit is applied in respect of all public limited companies.

Question 6:

- (i) The Directors of KBK Ltd. proposes to transfer unclaimed dividend to Profit and Loss Account. The auditor can agree with management over this as dividend is declared out of profit.
- (ii) Discuss the principles, which are useful in assessing the reliability of audit evidence.

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(iii) What are the risks associated with going concern assumptions which the auditor should consider judging appropriateness underlying the preparation of financial statements?

(iv) As an auditor, how will you vouch and/or verify, 'Sale proceeds of Scrap Material.'

[4+4+5+5 = 18]

Question 7:

As an auditor, comment on the following situations:

(i) The method of depreciation on plant and machinery is to be changed from SLM basis to WDV basis from the current year.

(ii) The management tells you that WIP is not valued since it is difficult to know the same in view of multiple processes involved and in any case opening and closing WIP would be more or less the same.

(iii) A company had a branch office, which recorded a turnover of ₹1,89,800 in the earlier year. The auditor's report of the earlier year had no reference regarding the branch although; the branch audit had not been carried out by the statutory auditor.

(iv) 'At the AGM of ABC Ltd., Mr Y was appointed as the statutory auditor. He, however, resigned after 3 months since he wanted to give up practice and join industry.

State, how the new auditor will be appointed by ABC Ltd.

[4+4+4+6 = 18]

Question 8:

(i) Explain the 'Management Audit' process.

(ii) Write a short note on- Permanent Audit File.

(iii) In determining whether to use Computer Assisted Auditing Techniques (CAATs), what are the factors that an auditor has to consider?

(iv) What do you understand by internal checks?

(v) Assets purchased under hire-purchase system were reflected at their full value and the outstanding installments payable have been included under Sundry Creditors.

[4+4+4+4+2 = 18]