Paper 12- Company Accounts & Audit

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Full Marks: 100 **Time allowed: 3 hours**

Section – A

Question no. 1 is compulsory

1. (a) Choose the correct answer from the given four alternatives: [6x1=6]

(i) Short-Term Borrowings will include all Loans within a period of _____ months from the date of the loan.

(A) 6
(B) 12
(C) 24
(D) 3

(ii) If a company has contingent liability it appears in the

(A) Balance Sheet
(B) Director's Report
(C) Notes to accounts
(D) Chair man's Report

(iii) Which of the following is not a financial statement

(A) P & L A/c
(B) Balance Sheet
(C) Fund Flow Statement
(D) Trail Balance

(iv) Declaration of dividend is covered under section

(A) Sec 122
(B) Sec 123
(C) Sec 124
(D) Sec 125

(v) Bank overdraft should be disclosed as part of _________ ___________.

(A) Cash and Cash Equivalents
(B) Trade Receivables
(C) Trade Payables
(D) None of the above

(vi) Cash receipts from sale of goods is a/an

(A) Operating Activity
(B) Investing Activity
(C) Financing Activity
(D) None of the above

Answer:

(i) — (B)
(ii) — (C)
(iii) — (D)
(iv) — (B)
(v) — (D)
(vi) — (A)

(b) Match the following: [4×1=4]

	Column 'A'		Column 'B'
1.	Section 39	A.	Prohibition for Buy-Back
2.	Section 53	B.	Issue and redemption of Preference Shares
3.	Section 55	C.	Prohibition on Issue of Shares at Discount
4.	Section 70	D.	Allotment of Securities by Company

Answer:

	Column 'A'		Column 'B'
1.	Section 39	D.	Allotment of Securities by Company
2.	Section 53	C.	Prohibition on Issue of Shares at Discount
3.	Section 55	B.	Issue and redemption of Preference Shares
4.	Section 70	A.	Prohibition for Buy-Back

(c) State whether the following statements are True (or) False. [4×1=4]

(i) A company may buy-back its shares or other specified securities from out of its securities premium account.

(ii) Register of Directors is not a Statutory Book.

(iii) An issuance of stock following a company's Initial Public Offer is called a Follow on Public Offer.

(iv) A bonus share is a free share issued by accepting a consideration to an existing shareholder in the ratio of number of shares held by that shareholder.

Answer:

(i) True;
(ii) False;
(iii) True;
(iv) False.

Answer any three questions out of the following four questions [3×12=36]

2. (a) OM Ltd. had ₹20,00,000, 8% Debentures of ₹100 each as on 31st March,2016. The company purchased Debentures in the Open Market following immediate cancellation:

On 01.07.2016: 2,000 Debentures at ₹97 (cum-interest).

On 29.02.2016: 3,600 Debentures at ₹99 (ex- interest).

Debenture Interest due dates are 30th September and 31st March.

Give Journal Entries in the books of the Company for the year ended 31st March, 2017. [10]

Answer:

Journal Entries

Date	Particulars	Dr.(₹)	Cr.(₹)
01.07.2016	Investment in Own 8% Debentures A/c Dr. Interest on Own 8% Debentures A/c Dr. To, Bank A/c [Being, 2,000 Debentures purchased at ₹97 cum-interest. Payment = 1,94,000, Interest from 1st July to 30th September = 2,00,000 × 8% × ¼ = 4,000, hence, balance = Cost.]	1,90,000 4,000	 1,94,000
01.07.2016	8% Debentures A/c Dr. To, Investment in Own 8% Debentures A/c To, Profit on Cancellation of Own Debentures A/c [Being, Cancellation of Own Debentures.]	2,00,000	 1,90,000 10,000
30.09.2016	Interest Expense A/c Dr. To, Bank A/c (18,00,000 × 8% × ½) [Being, half yearly Debenture Interest paid on ₹18,00,000 for 6 months.]	72,000	 72,000
29.02.2017	Investment in Own Debentures A/c (3,600 × ₹99) Dr. Interest on Own 8% Debentures A/c Dr. To, Bank A/c [Being, 3,600 Debentures purchased at ₹99 ex-interest. Interest from 1st October to 29th February, i.e. for 5 months = 3,600 × 100 × 8% × $\frac{5}{12}$ = ₹12,000.]	3,56,400 12,000	 3,68,400
29.02.2017	8% Debentures A/c Dr. To, Investment in Own 8% Debentures A/c To, Profit on Cancellation of Own Debentures A/c [Being, cancellation of Own Debentures.]	3,60,000	 3,56,400 3,600
31.03.2017	Interest Expenses A/c Dr. To, Bank A/c (14,40,000 × 8% × $\frac{6}{12}$) [Being, Half-Yearly Interest paid on Debentures ₹14,40,000 for 6 months.]	57,600	 57,600
31.03.2017	Profit & Loss A/c Dr. To, Interest on Own 8% Debentures A/c To, Interest Expense A/c [Being, Interest Expense transferred to Profit & Loss A/c]	1,45,600	 16,000 1,29,600
31.03.2017	Profit on Cancellation of Owned Debentures A/c Dr. To, Profit & Loss A/c [Being, Profit on cancellation transferred to Profit & Loss A/c]	13,600	 13,600

- In the above case the Profit on Cancellation of Owned Debenture is routed through the **"Profit on Cancellation of Owned Debentures A/c" .**

(b) Ashirvad Ltd. has two associates, Bhakti Ltd. and Chitra Ltd, and owns 25% of voting power of Bhakti Ltd. and 30% of voting power of Chitra Ltd. Would Bhakti Ltd. is considered a related party in the financial statements of Chtra Ltd.?

[2]

Answer:

Both Bhakti Ltd. and Chitra Ltd. are associates of Ashirvad Ltd. Co-associates cannot be regarded as related parties only by virtue of this relationship. As per AS-18 "associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting enterprise is an associate or a joint venture" are related parties. As Bhakti Ltd. is not an associate of Chitra Ltd. nor is it being controlled, directly or indirectly, by Chitra Ltd. or is not so controlling Chitra Ltd., it is not a related party of Chitra Ltd.

3. (a) The life insurance fund of Upkar Life Insurance Co. Ltd. was ₹ 68,00,000 on 31st March, 2015. Its actuarial valuation on 31st March, 2015 disclosed a net liability of ₹ 57,60,000. An interim bonus of ₹ 80,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward ₹ 2,20,000 and to divide the balance between the policyholders and the shareholders. Show (a) the Valuation Balance Sheet, (b) the net profit for the two-year period, and (c) the distribution of the profits. [6]

Answer:

In the Books of Prakash Life Insurance Co. Ltd.

Valuation Balance Sheet as on 31st March, 2013

Liabilities	Amount (₹)	Assets	Amount (₹)
To Net liability To Net Profit	57,60,000 10,40,000	By Life Assurance Fund	68,00,000
	68,00,000		68,00,000

Net profit for the two-year period	
Profit as per Valuation Balance Sheet	10,40,000
Add: Interim Bonus paid during the previous two years	80,000
Net Profit	11,20,000
Distribution of the profits	
Net Profit	11,20,000
Less: Amount proposed to be carried forward	2,20,000
Balance	9,00,000
Share of policyholders (95% of ₹ 9,00,000)	8,55,000
Less: Interim bonus paid	80,000
Amount due to policyholders	7,75,000

Share of Shareholders (5% of ₹ 9,00,000)	45,000

(b) The following details are extracted from the Books of Mega Power Generation Ltd.

- **Date of Commercial Operation/Work Completed date : 28th January', 1998**
- **Beginning of Current Year : 1st April, 2013**
- **Useful Life : 35 years**

Particulars	(Amount in ₹ crores)
Capital Cost at beginning of the year 2013-14	**33,000**
Additional Capitalisation during the year:	
2013-14	**00.00**
2014-15	**51.70**
2015-16	**43.76**
Value of Freehold Land	**17.84**
Depreciation recovered upto 2011-12	**72.25**
Depreciation recovered in 2012-13	**8.05**

Note: Capital Cost and Accumulated Depreciation at the beginning of the year as per Tariff order, Financial Year 2013-14.

You are required to calculate:

(i) Average Capital Cost

Annual Depreciation for the year 2013-14, 2014-15 and 2015-16 as per Tariff Regulations-2009. [6]

Answer:

(a) Name of the Power Station: Mega Power Generation Ltd.
Date of Commercial operation/work completed date: January28, 1998
Beginning of Current year April 1, 2013
Useful Life: 35 years
Remaining useful life: 20 years

Statement showing the Calculation of Average Capital Cost and Depreciation

(Amount in ₹ Crores)

Particulars	2013-14	2014-15	2015-16
A. Opening Capital Cost	330.00	330.00	345.70
B. Additional Capital Cost	00.00	15.70	43.76
C. Closing Capital Cost	330.00	345.70	389.46
D. Average Capital Cost [(A+C)/2]	330.00	337.85	367.58
E. Less: Cost of freehold Land	17.84	17.84	17.84
F. Average Capital cost for Depreciation (D-E)	312.16	320.01	349.74
G. Depreciable value (90% of F)	280.94	288.01	314.77
H. Depreciation recovered upto prev. year	80.30	90.33	100.73
I. Balance depreciation to be recovered (G-H)	200.64	197.68	214.04
J. Balance useful life out of 35 years	20.00	19.00	18.00
K. Yearly depreciation from 2013-14 (I/J)	10.03	10.40	11.89
L. Depreciation recovered upto the year (H+K)	90.33	100.73	112.62

4. A Ltd. was formed on 01.04.2012 with an authorized capital of 6,00,000 in shares of ₹10 each. Of these 52,000 shares had been issued and subscribed but there were calls-in arrears on 100 shares. From the following Trial Balance as on 31.03.2013 prepare Profit and Loss A/c and Balance Sheet.

Cash at Bank	**1,05,500**	**-**
Share Capital	**-**	**5,19,750**
Plant	**40,000**	**-**
Sale of Silver	**-**	**1,79,500**
Mines	**2,20,000**	**-**
Promotion Interest on Deposit upto Dec 31st	**6,000**	**-**
Interest on Deposit upto Dec 31st	**-**	**3,900**
Dividend on Investment	**-**	**3,200**
Royalty paid	**10,000**	**-**
Trucks & Wagons	**17,000**	**-**
Wages	**74,220**	**-**
Advertising	**5,000**	**-**
Carriage on plant	**1,800**	**-**
Furniture & Buildings	**20,900**	**-**
Administrative Expenses	**28,000**	**-**
Repairs to Factory Plant	**900**	**-**
Coal & oil	**6,500**	**-**
Cash	**530**	**-**
Investment in Shares	**80,000**	**-**
Brokerage on above shares	**1,000**	**-**
6% F.D. in Bank 01.04.2012	**89,000**	**-**
	7,06,350	**7,06,350**

[12]

Depreciate Plant & railway wagons by 10%, Furniture & Buildings by 5%. Write off one-third of the promotion expenses. Value of Silver as on 31.03.2013 was ₹15,000. The directors forfeited on December 10th 2012 100 shares of which only ₹7.50 had been paid.

Answer:

Statement of Profit and Loss for the year ending 31.03.2013

Particulars	Note	Amount (₹)
Revenue from operation	1	1,79,500
Other income		23,435
Total Revenue		2,02,935
Expenses		
Employee benefits	2	1,02,220
Depreciation and Amortisation	3	6,925
Other Expenses	4	24,400
Total Expenditure		1,33,545
Profit for the year		69,390

Balance Sheet as at 31.03.2013

Particulars	Note	Amount (₹)
I. Equity & Liability		
Share Capital	1	5,19,750
Reserves and Surplus	2	69,390
Total Liabilities		5,89,140

II. Assets		
Fixed Assets		
Tangible Assets	3	2,92,775
Intangible Assets	4	4,000
Non-current Investment	5	81,000
Current Assets		
Inventories	6	15,000
Cash & Cash Equivalents	7	1,95,030
Other current assets	8	1,335
		5,89,140

Working Notes:

1. **Share Capital**

Particulars	Amount (₹)
Share Capital 5,19,000 – Forfeited 750	5,19,750

2. **Reserves And Surplus**

Particulars	Amount (₹)
Profit and Loss A/c	69,390

3. **Tangible Assets**

Particulars		Amount (₹)
Mines		2,20,000
Furniture	20,900	
(-) 5% Depreciation	1,045	19,855
Plant	40,000	
(+) Carriage	1,800	
	41,800	
(-) 10% Depreciation	4,180	37,620
Trucks	17,000	
(-) 10% Depreciation	1,700	15,300
		2,92,775

4. **Intangible Assets**

Particulars		Amount (₹)
Promotion Expenses	6,000	
(-) Written off	2,000	4,000

5. **Non-current Investments**

Particulars	Amount (₹)
Investments in shares	81,000

6. Inventories

Particulars	Amount (₹)
Closing Stock	15,000

7. Cash and Cash equivalents

Particulars		Amount (₹)
Cash at bank	1,05,500	
Cash in hand	530	
6% F.D in Bank	89,000	1,95,030

8. Other current assets

Particulars	Amount (₹)
Int. O/s on FD	1,335

Other Incomes

Particulars		Amount (₹)
Closing stock		15,000
Int. on F.D.	3,900	
(+) O/s int.	1,335	5,235
Div from Investment		3,200
		23,435

Employee Benefits

Particulars		Amount (₹)
Wages	74,220	
Administrative Exps.	28,000	1,02,220

Depreciation & Amortisation

Particulars	Amount (₹)
41,800 ×10%	4,180
17,000×10%	1,700
20,900 × 5%	1,045
	6,925

Other Expenses

Particulars	Amount (₹)
Coal & oil	6,500
Royalty	1,000
Repairs	900
Advertising	5,000
Promotion expenses written off	2,000

	24,400

5. Write short note (any three): [3×4=12]

(a) Types of Cash Flows;

(b) Issue of Sweat Equity Shares;

(c) Main features of Electricity Act,2003;

(d) Finance Lease.

Answer:

(a) Types of Cash Flow

Cash Flow Statement explains cash movements under three different heads, namely

- Cash flow from operating activities;
- Cash flow from investing activities;
- Cash flow from financing activities.

Sum of these three types of cash flow reflects net increase or decrease of cash and cash equivalents.

Operating activities are the principal revenue producing activities of the enterprise. Operating activities include all transactions that are not defined as investing or financing. Operating activities generally involve producing and delivering goods and providing services.

Investment activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

(b) Issue of Sweat Equity Shares:

Sweat Equity Shares are issued as per section 54.

Notwithstanding anything contained in section 53, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:

a. the issue is authorised by a special resolution passed by the company;
b. the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
c. not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business; and
d. where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed. The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the

sweat equity shares issued under this section and the holders of such shares shall rank pari passu with other equity shareholders.

(c) Following are the main features of Electricity Act, 2003 —

- The activities like generation, transmission and distribution of power have been separately identified.
- The Act de-licenses power generation completely (except for hydro power projects, over a certain size).
- 10% of the power supplied by suppliers and distributors to the consumers has to be generated using renewable and non-conventional sources of energy.
- Setting up State Electricity Regulatory Commission (SERC) made mandatory. (v) Appellate Tribunal to hear appeals against the decision of the CERC and SERCs.
- Ombudsman scheme for consumers' grievance redressal.
- Provision for private licensees in transmission and entry in distribution through an independent network.
- Metering of all electricity supplied made obligatory.
- Provision relating to theft of electricity made stricter.

(d) Finance Lease – It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the Lessee by the Lessor but not the legal ownership. In following situations, the lease transactions are called Finance Lease.

- The lessee will get the ownership of leased asset at the endof the lease term.
- The lessee has an option to buy the leased asset at the end of term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset.
- At the beginning of lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Section – B

Question no. 6 is compulsory

6. (a) Choose the correct answer from the given four alternatives: [6x1=6]

(i) First auditor of the company is appointed by the BOD within

(A) 15 days
(B) 30 days
(C) 45 days
(D) 60 days

(ii) Proving the truth means vouching of ___________________.

(A) Payment
(B) Expenses
(C) Assets
(D) Liabilities

(iii) Form for Secretarial Audit Report is

(A) MR-2
(B) MR-3

(C) MR-4
(D) MR-5

(iv) The meetings of Audit committee should be _____________ in a year.
(A) 4
(B) 5
(C) 3
(D) 2

(v) An audit report is the _________ product of audit.
(A) Main
(B) Final
(C) Semi final
(D) None of the above

(vi) Cost Auditor is appointed by the
(A) Audit Committee
(B) BOD
(C) BOD on recommendation of Audit Committee
(D) None of the above

Answer:

(i) — (B)
(ii) — (B)
(iii) — (B)
(iv) — (A)
(v) — (B)
(vi) — (C)

(b) Match the following: **[4×1=4]**

	Column 'A'		**Column 'B'**
1.	**Section 61 of the Co. Act 2013**	**A.**	**Final Audit**
2.	**Annual Audit**	**B.**	**Comptroller and Auditor General of India**
3.	**Functional Classification of Audit**	**C.**	**Alteration of Share Capital**
4.	**The authority for Govt. Audit**	**D.**	**External and Internal Audit**

Answer:

	Column 'A'		**Column 'B'**
1.	Section 61 of the Co. Act 2013	**C**	Alteration of Share Capital
2.	Annual Audit	**A**	Final Audit
3.	Functional Classification of Audit	**D**	External and Internal Audit
4.	The authority for Govt. Audit	**B**	Comptroller and Auditor General of India

(c) State whether the following statements are True (or) False. [4×1=4]

(i) Cost Accounting Standards is mandatory as per section 143 of the companies Act 2013.
(ii) Audit report reflects the work done by the employees.
(iii) The concept of true or fair is a fundamental concept in auditing.
(iv) Statutory Auditor is appointed by the shareholder in the general meeting.

Answer:

(i) False;
(ii) False;
(iii) False:
(iv) True.

Answer any three questions out of the following four questions [3×12=36]

7. (a) State the Advantages of Statutory Audit.
(b) Discuss the differences between a checklist and internal control questionnaire.[8+4=12]

Answer:

(a) The auditor expresses his independent opinion after following relevant audit procedures and checking the external and internal evidences necessary for the conduct of audit. He comments on the truthfulness and fairness of statement of affairs of the organization as on certain date and also about the fact that no misstatement or misrepresentation has been made in the Financial Statements under report.

Such an independent opinion by the auditor increases the reliability, authenticity and credibility of the Financial Statements which may further be used by different users for various purposes such as:

(i) The members/shareholders/stakeholders, for their economic decisions and for exercising their voting rights.
(ii) For timely tax assessments.
(iii) For determining the purchase or sale consideration in case of ongoing concern.
(iv) Settlement of partners' accounts in case of admission, retirement or death of partner on account of goodwill or otherwise.
(v) Before the court, in case of settlement of disputes with employees, creditors or debtors.
(vi) For determining the actual value of business or shares in case of merger, acquisition, etc.
(vii) For getting financial assistance from financial institutions, banks or investors.
(viii) In case of non-profit organizations, for getting government grants and availing tax exemptions.
(ix) Evaluation of the internal control systems and strengthening it by removing the inherent weaknesses, and checking the efficacy of the internal checks.
(x) For checking the integrity of the management which manages the funds and affairs on behalf of the real owners or shareholders.

(xi) For other users of financial statements like creditors, investors and government agencies, it ensures that any assertions in the Financial Statements are neither overstated/understated nor misrepresented.

(xii) For the proper distribution of profits by way of payment of wages and other benefits.

(xiii) For ensuring of proper distribution of profits as dividends.

(xiv) For ensuring that all legal requirements are fulfilled and statutory compliances are adhered.

(xv) For settlement of insurance claims or other recoveries from government bodies or otherwise.

(b) Difference between a Checklist and Internal Control Questionnaire:

	Basis	**Check List**	**Internal Control Questionnaire**
(i)	Point of Time	It is issued at the commencement of audit and reported back after completion of audit.	It can be issued at any point of time and reported back immediately.
(ii)	Issued To	It is issued to the audit staff to be followed by them during audit and reported back at completion.	It is issued to various people at different levels in the organization.
(iii)	Contents	It contains instructions to be followed by audit assistants.	It contains questions to be answered by the employees of the organization.
(vi)	Objective	It works as a guideline for audit staff so that no remains unchecked.	This is used to collect the information to know about the internal control system and to evaluate the weaknesses therein.

8. (a) Discuss the eligibility, qualifications and disqualifications of auditors as per Section 141 of the Companies Act,2013.

(b) List the functions of an Audit Committee. [8+4=12]

Answer:

(a)

(1) A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant.

Provided that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.

(2) Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.

(3) The following persons shall not be eligible for appointment as an auditor of a company, namely:—

(a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;

(b) an officer or employee of the company;

(c) a person who is a partner, or who is in the employment, of an officer or employee of the company;

(d) a person who, or his relative or partner—

(i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.
Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as may be prescribed;

(ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed; or

(iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for such amount as may be prescribed;

(e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;

(f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;

(g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;

(h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;

(i) any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144.

(4) Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

(b) Function of Audit Committee:

The various Functions of the Audit Committee is enumerated below;

(i) For the appointment and fixation of the remuneration of Auditor.

(ii) Examination of the Financial Statement.
(iii) Scrutiny of Inter Corporate Loans and Investment,
(iv) Valuation of the Assets of the Company,
(v) Evaluation of the internal financial control and risk management system of the entity.
(vi) Evaluation of the use of the funds rose through public offers.
(vii) Evaluation of any related party transaction.

9. (a) 'Remuneration of a Cost Auditor' — Discuss.
(b) List the features of a Qualified Audit Report. [4+8=12]

Answer:

(a) Rule 14 of the Companies (Audit and Auditors) Rules, 2014 has laid down the procedure of appointment and fixing the remuneration of a cost auditor. It states as follows:

Remuneration of the Cost Auditor: For the purpose of sub-section (3) of section 148 –
(a) in the case of companies which are required to constitute an audit committee-

(i) the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;
(ii) the remuneration recommended by the Audit Committee under
(iii) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;

(b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

(b) Features of a Qualified Report –

i. Clarity: The Auditor must express the nature of qualification, in a clear and unambiguous manner.
ii. Explanation: Where the Auditor answers any of the statutory affirmations in the negative or with a qualification, his Report shall state the reasons for such answer.
iii. Placement: All qualifications should be contained in the Auditor's Report. When there are Notes, which are subject matter of a qualification, the same should preferably he annexed to the Auditors' Report. However a reference to the Notes to Accounts in the Auditors' Report does not automatically become a qualification.
iv. Subject to: The words "subject to" are essential to state any qualification. The qualification should be preceded by words such as "Subject to" or "Except that" to make it clear that he is making an exception.
v. Nature of Qualification: Vague statements, the effect of which on accounts cannot be ascertained, like, The debtors balances are subject to confirmation', No provision

for taxation has been made in view of the loss during the year', etc. should be avoided.

vi. Violation of Law: Where the Company has committed an irregularity resulting in a breach of law, the Auditor should bring the same to the notice of the shareholders by properly qualifying his report.

vii. Quantification: The Auditors should quantify, wherever possible, the effect of these qualifications on the Financial Statements if the same is material. Where the effect of qualification cannot be accurately quantified, the Auditor may reflect the effect on the basis of Management estimates, after carrying out necessary audit tests on such estimates.

viii. Notes-Report Relationship: Where notes of a qualificatory nature appear in the accounts, the Auditors should state all qualifications independently in their report so that the user can assess the significance of these qualifications.

ix. Draft Report: The Auditor may discuss matters of qualification with the Management of the Company to acquire their views. It is not necessary that the Auditor should accept the Management's view and modify his opinion. But it would enable the Auditor to accurately draft the qualifications in his Final Report.

10. Write short note (any three): [3×4 = 12]

(a) Advantages of Joint Audit;

(b) Auditor's duty on redemption on debenture;

(c) Audit of Bills payable for banks;

(d) First Auditor.

Answer:

(a) The various advantages that accrue out of Joint Audit are enumerated below:

(c) Lower workload

(d) Timely completion of work

(e) Sharing of expertise

(f) Improved quality of services

(g) Healthy competition

(h) Quality of performance

(b) Auditor's duty on Redemption of debentures:

A company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption. If debentures are redeemable it can be redeemed in any of the following way:

(i) By way of periodical drawing i.e. by creating Debenture Redemption Reserve Account.

(ii) By way of payment on fixed date.

(iii) By payment whenever the company desires to do so.

Auditor's Duty:

(i) The auditor should inspect the debentures or trust deed for the terms and conditions regarding redemption of debentures.
(ii) He should see the Director's minute book authorizing the redemption of debentures.
(iii) He should also vouch the redemption with the help of debenture bonds cancelled and the cash book.
(iv) He should also examine the accounting treatment thoroughly.

(c) Audit of bills payable for Banks:

The auditor should evaluate the existence, effectiveness and continuity of internal controls over bills payable. Such controls should usually include the following:
(i) Drafts, mail transfers, traveller's cheques, etc., should be made out in standard printed forms.
(ii) Unused forms relating to drafts, traveller's cheques, etc., should be kept under the custody of a responsible officer.
(iii) The bank should have a reliable private code known only to the responsible officers of its branches coding and decoding of the telegrams should be done only by such officers.
(iv) The signatures on a demand draft should be checked by an officer with the specimen signature book.
(v) AW the telegraphic transfers and demand drafts issued by a branch should be immediately confirmed by advices to the branches concerned. On payment of these instruments, the paying branch should send a debit advice to the originating branch.
(vi) If the paying branch does not receive proper confirmation of any telegraphic transfers or demand draft from the issuing branch, it should take immediate steps to ascertain the reasons.
(vii) In case an instrument prepared on a security paper, e.g., draft, has to be cancelled (say, due to error in preparation), it should be examined whether the manner of cancellation is such that the instrument cannot be misused.

(d) First Auditor

- First auditor of the company, other than a Government company, shall be appointed by the BOD within 30 days from the date of registration of the company;
- If BOD fails to appoint, by the member of the company within 90 days at an extraordinary general meeting appoint the first auditor;
- In case of Government company, first auditor shall be appointed by CAG within 60 days from the date of registration;
- If CAG fails to appoint, by the BOD of the company within next 30 days;
- If again BOD fails to appoint the first auditor of the company, by the member of the company within 60 days at an extraordinary general meeting;
- Tenure of the first auditor of the company in both the above cases till the conclusion of the first annual general meeting.