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) Provision is created for
- **(a) Unknown Liability**
- **(b)** Known Liability
- **(c)** Creation of secret reserve
- **(d)** None

(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) Sundry Creditors for Goods or Services, and acceptances should be disclosed as part of _________ ___________.
- **(a) Trade payable**
- **(b)** Trade receivable
- **(c)** Non-current investments
- **(d)** None of the above.

(vi) Cash receipts from disposal of fixed assets is a/an
- **(a)** Operating Activity
- **(b) Investing Activity**
- **(c)** Financing Activity
- **(d)** None of the above

(b) Match the following: **[4×1=4]**

	Column 'A'		Column 'B'
1.	Section 54	A.	Issue of Debentures
2.	Section 68	B.	Issue and redemption of Preference Shares
3.	Section 55	C.	Sweat Equity Shares
4.	Section 71	D.	Power of company to purchase its own security

Answer:

	Column 'A'		Column 'B'
1.	Section 54	C.	Sweat Equity Shares
2.	Section 68	D.	Power of company to purchase its own security
3.	Section 55	B.	Issue and redemption of Preference Shares
4.	Section 71	A.	Issue of Debentures

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

(i) A company limited by shares shall issue any preference shares which are irredeemable.

(ii) Schedule III deals only with presentation and disclosure requirements.

(iii) Interest income in case of a Finance Company is treated as a part of revenue from Operation.

(iv) Non-performing assets bear a little amount of risk like normal risk and they do not create any trouble regarding their realization.

Answer:

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

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

2. (a) On January 1, 2004 Vardhaman Ltd. allotted 20,000, 9% Debentures of ₹ 100 each at par, the total amount having been received along with applications.

(1) On 1st Feb., 2005 the Company purchased in the open market 2,000 of its own debentures @ ₹ 102 each and cancelled them immediately.

(2) On 1st January, 2008 the Company redeemed at par debentures for ₹ 3,00,000 by draw of a lot.

(3) On 1st June, 2010 the Company purchased debentures of the face value of ₹ 2,00,000 for ₹ 1,97,800 in the open market, held them as investments for one year and then cancelled them.

(4) Finally, as per resolution of the Board of Directors, the remaining debentures were redeemed at a premium of 3% on 1st Feb., 2014 when Securities Premium Account in the company's ledger showed a balance of ₹ 50,000.

Pass journal entries for the above mentioned transactions ignoring debentures redemption reserve, debenture-interest and interest on own debentures. **[10]**

Answer:

Journal Entries

Date	Particulars	Debit (₹)	Credit (₹)
1.1.04	Bank A/c Dr. To Debenture Application and Allotment A/c (Being amount received on issue of ₹ 20,000, 9% debentures @ ₹ 100 each).	20,00,000	 20,00,000
1.1.04	Debenture Application and Allotment A/c Dr. To 9% Debentures A/c (Being Allotment of 20,000, 9% Debentures ₹ 100 each)	20,00,000	 20,00,000
1.2.05	Investment in Own 9% Debenture A/c Dr. To Bank A/c (Being, own debenture purchased)	2,04,000	 2,04,000
"	9% Debenture A/c Dr. Loss on Cancellation A/c Dr. To Investment in Own 9% Debenture A/c (Being , own debenture cancelled)	2,00,000 4,000	 2,04,000
1.1.08	9% Debenture A/c Dr. To Debenture Redemption A/c (Being, Amount due on redemption of debentures of ₹3,00,000)	3,00,000	 3,00,000
"	Debenture Redemption A/c Dr. To Bank A/c (Being, Amount paid on redemption of debentures of ₹3,00,000)	3,00,000	 3,00,000
1.6.10	Investment in Own 9% Debenture A/c Dr. To Bank A/c (Being, own debenture purchased, of the face value of ₹ 2,00,000 for ₹ 1,97,800)	1,97,800	 1,97,800
"	9% Debentures A/c Dr. To Investment in Own 9% Debenture A/c To Profit on Cancellation of own Debenture A/c (Being cancellation of own debenture)	2,00,000	 1,97,800 2,200
"	Profit on cancellation of Own Debenture A/c Dr. To Capital Reserve A/c (Being, transfer of profit on cancellation of own debentures to capital reserves)	2,200	 2,200
1.2.14	9% Debenture A/c Dr. Premium on Redemption A/c Dr. To Debenture Redemption A/c (Being the amount due on redemption of 9% Debenture at a premium of 3%)	13,00,000 39,000	 13,39,000
"	Debenture Redemption A/c Dr. To Bank A/c (Being, Payment on redemption of debentures)	13,39,000	 13,39,000
"	Securities Premium A/c Dr. To Premium on Redemption A/c (Being, tilization of a part of Securities Premium A/c to write off premium paid on redemption of debentures)	39,000	 39,000

[No. of remaining debentures = 20,000 – 2,000 – 3,000 – 2,000= 13,000]

(b) During the year 2013-14, Purvi Limited received a grant from the Government of India amounting to ₹35 lakh towards purchase of a piece of land for ₹140 lakh.

You are required to show the accounting treatment of the above transaction in the books of Purvi Limited, as per AS-12. [2]

Answer:

As per AS-12, accounting for Government Grants related to non- depreciable assets should be credited to capital reserve.

Thus, in the Books of Purvi Limited: (₹ In Lakhs)

Accounting entries:		₹	₹
(i) On Purchase of Land			
Land A/c	Dr.	140	
To Bank A/c			140
(ii) On receipt of Govt. Grant			
Bank A/c	Dr.	35	
To Capital Reserve A/c			35

3. (a) New Life insurance Ltd. provides the following information:

	(Amount in ₹ Lakh)
Balance of Life Assurance Fund as on 1st April, 2015	**1,004**
Interim bonus paid in the valuation period	**160**
Balance of Revenue Amount for the year ended 31st March 2016	**1,400**
Net liability as per Actuarial Valuation as on 31st March 2016	**980**

You are required to prepare:
(i) Valuation Balance Sheet and
(ii) Profit Distributions Statement- for the year ended 31st March, 2016. [3+4=7]

Answer:

New Life Insurance Ltd.
(I) Valuation Balance Sheet at March 31, 2016

(Amount in ₹ Lakh)

Liabilities	**₹**	**Assets**	**₹**
Net liabilities as per actuarial valuation Surplus / net profit	980 420	Life Insurance fund	1,400
	1,400		1,400

(I) Profit Distribution Statement for the year ended March 31, 2016

(Amount in ₹ Lakh)

Surplus /net profit Add: Interim bonus paid	420 160
Amount available for distribution	580
Policyholders' shares @95% of ₹580 lakh Less: Interim bonus paid Shareholders' share @5% of ₹580 lakh	551.00 160.00 **391.00** **29.00**

(b) In Calculate Rebate on Bills discounted as on 31 December, 2011 from the following data and show journal entries:

	Date of Bill	₹	Period	Rate of Discount
(i)	15.10.2015	80,000	5 months	8%
(ii)	10.11.2015	30,000	4 months	7%
(iii)	25.11.2015	40,000	4 months	7%
(iv)	20.12.2015	60,000	3 months	9%

[5]

Answer:

Calculation of Rebate on Bills Discounted

₹	Due Date	Days after 31 December, 2013	Discount Rate	₹
80,000	18.03.2016	31+ 29 +18 = 78	8%	1,363.93
30,000	13.03.2016	31+29+13 = 73	7%	418.85
40,000	28.03.2016	31+29+28 = 88	7%	673.22
60,000	23.03.2016	31+29+23 = 83	9%	1,224.59
Total				3,680.59

Dec.31	Particulars	Dr. ₹	Cr. ₹
	Interest and Discount Account Dr. To, Rebate on Bills Discounted. (Being the provision for unexpired discount required at the end of the year)	3,680.59	3,680.59

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	**-**	**17,950**
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	
Administratative 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 Flow;

(b) Issue of Sweat Equity Shares;

(c) Central Electricity Regulatory Commission (CERC);

(d) Comparison between Ind AS 21 and AS 11.

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) Central Electricity Regulatory Commission (CERC):

Meaning: The Central Electricity Regulatory Commission shall be a body corporate, having perpetual succession and a common seal with power to acquire, hold and dispose of property, both movable and immovable, and to contract and shall, by the said name, sue or be sued.

Constitution: The Central Commission shall consist of the following Members namely:

(i) A chairperson and 3 Members
(ii) The Chairperson of the Authority who shall be the Member, ex-officio.

Appointment: The Chairperson and Members of the Central Commission shall be appointed by the Central Government on the recommendation of the Selection Committee.

Functions: The functions of the Central Commission include regulating the tariff of generating companies, the inter-state transmission of electricity, to issue licenses, to levy fees, to fix trading margin etc.

(d) Comparison between Ind AS 21 and AS 11:

	Ind AS -21	AS - 11
1.	Forward exchange contracts and other similar financial instruments are excluded from the scope of this standard.	Forward exchange contracts and other similar financial instruments are not excluded from the scope of this standard.
2.	Factors for determining the functional currency of an entity is same as the indicators in existing AS 11 to determine the non-integral foreign operations. There is no substantive differences in respect of the accounting procedure.	There are two aspects – integral foreign operations and non-integral foreign operations for accounting.
3.	There is an option to recognise the exchange differences arising on translation of any long-term monetary items from foreign currency to functional currency and it is permitted. Accumulated exchange differences are to be transferred to P& L Account in a appropriate way.	There is no such permission.

Section – B

Question no. 6 is compulsory

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

(i) The purpose of internal audit is to protect the
(A) **Assets**
(B) Audit staff
(C) Accountant
(D) Management

(ii) Proving the truth means vouching of ___________________.
(A) Payment
(B) **Expenses**
(C) Assets
(D) Liabilities

(iii) Form for maintenance of Cost Records by the Company is ____________________.
(A) **CRA-1**
(B) CRA-2
(C) CRA-3
(D) CRA-4

(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) Statutory Auditor can be removed by the __________________
(A) **Shareholders**
(B) Audit committee
(C) BOD
(D) None of the above.

(b) Match the following: **[4×1=4]**

	Column 'A'		Column 'B'
1.	**Statutory Audit**	**A.**	**Final Audit**
2.	**Annual Audit**	**B.**	**Comptroller and Auditor General of India**
3.	**Functional Classification of Audit**	**C.**	**Tax Audit**
4.	**The authority for Govt. Audit**	**D.**	**External and Internal Audit**

Answer:

	Column 'A'		Column 'B'
1.	Statutory Audit	**C**	Tax Audit
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) Should reporting in Audit report comply with the requirements as made by statues?

(ii) An audit work reflects the work done by the management.

(iii) The concept of true or fair is a fundamental concept in auditing.

(iv) An auditor is not insurer.

Answer:

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

(iv) True.

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

7. (a) Differentiate between Accounting and auditing.
(b) State the advantages of conducting Audit of Sole proprietors. **[9+3 = 12]**

Answer:

(a) Difference between Accounting and Auditing:

	Accounting	Auditing
(i)	It is the collection, classification and summarization of data for preparation of books of accounts, and to make financial statements.	Auditing is an analytical and critical examination of books of accounts, financial records and the financial statements prepared thereon.
(ii)	It is the recording of transactions at the time of occurrence.	It is the post examination of recorded transactions.
(iii)	It measures the business events in monetary terms, records them, and communicates the financial results through Financial Statements.	Auditing reviews financial records to form an opinion on the authenticity of Financial Statements.
(iv)	The primary responsibility is of the management towards the shareholders/ owners, to maintain the Financial records in such a manner that Financial Statements can be prepared from the records.	The auditor is an independent person appointed by the business entity to review the Financial Statements and to give his opinion thereon.
(v)	An accountant is not expected to review/ report on the Financial Statement but to report the compilation of records to the management.	An auditor is required to submit a report with his opinion on 'true and fair' assertions made in the Financial Statements to the owners.
(vi)	An accountant works for/ under the management.	The auditor is an independent person answerable/liable to the owners/ shareholders and not just to the management.
(vil)	No such liability	In certain circumstances, the auditor could be held liable to third parties also.
(viii)	Maintenance of accounts may not be mandatory for small individuals or partnership firms, e. g. under section 44AA of the Income Tax Act, but could be mandatory under other laws, e. g. for companies under the Companies Act.	Audit could be exempt for various individuals or small partnerships, e. g. under section 44AB of the Income tax Act, and even in case where maintaining books of accounts is a statutory requirement under section 44AA, but may

		be mandatory under other laws e. g. for Companies under the Companies Act.
(ix)	Accounting is done as per the principles set by Indian Accounting standards	Auditing is done as per the principal set in standards an auditing.

(b) Advantages of auditing for sole proprietors

(i) It evaluates the internal control system and strengthens it by removing weaknesses, if any.
(ii) It increases the reliability and authenticity of Financial Statements.
(iii) It helps in timely finalization of Annual Financial Statements and tax assessments.
(iv) It keeps a moral check on the working of employees.
(v) It helps them in obtaining funds easily from financial institutions, based on more reliable Financial Statements available to the banks and financial institutions.
(vi) It helps in settling:
  → Trade disputes
  → Labour disputes
  → Insurance claims

8. (a) 'Auditor not to render certain services'. Comment.
(b) Discuss about the manner in which rotation of Auditors may be done by the company on expiry of their term. [6+6 = 12]

Answer:

(a) Auditor not to render certain services

An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case maybe, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or itsholding company or subsidiary company, namely:—

(i) accounting and book keeping services;
(ii) internal audit;
(iii) design and implementation of any financial information system;
(iv) actuarial services;
(v) investment advisory services;
(vi) investment banking services;
(vii) rendering of outsourced financial services;
(viii) management services; and
(ix) any other kind of services as may be prescribed.

Provided that an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of such commencement.

Explanation. — For the purposes of this sub-section, the term "directly or indirectly" shall include rendering of services by the auditor,—

(i) in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual;

(ii) in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners.

(b) Manner of rotation of auditors by the companies on expiry of their term:

The Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm who may replace the incumbent auditor on expiry of the term of such incumbent.

(1) Where a company is required to constitute an Audit Committee, the Board shall consider the recommendation of such committee, and in other cases, the Board shall itself consider the matter of rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.

(2) For the purpose of the rotation of auditors-

  (i) in case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of five consecutive years or ten consecutive years, as the case may be;

  (ii) the incoming auditor or audit firm shall not be eligible if such auditor or audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

Explanation. I - For the purposes of these rules the term "same network" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

Explanation. II - For the purpose of rotation of auditors,-

(a) a break in the term for a continuous period of five years shall be considered as fulfilling the requirement of rotation;

(b) if a partner, who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.

9. (a) How should an auditor verify the issue of Bonus shares of a Company?
(b) Write a note on 'Adverse Report'. [8+4 = 12]

Answer:

(a) Issue of Bonus Shares (Section 63)

(i) Confirm that issue of Bonus Share was authorized by articles.
(ii) Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained.
(iii) Check that the company has issue fully paid-up bonus shares to its members only.
(iv) Confirm that the issue of bonus shares shall not be made by capitalising reserves created by the revaluation of assets.
(v) Check whether the company has made any default in payment of interest or principal in respect of fixed deposits or debt securities issued by it.
(vi) Check whether the company has made any default in payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus.
(vii) Whether the partly paid-up shares are made fully paid-up.
(viii) Check whether the bonus shares shall not be issued in lieu of dividend.

(b) Adverse or Negative Report

(i) An Adverse or Negative Report 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) The Auditor states that the Financial Statements do not present a true and fair view of the state of affairs and the working results of the organisation.
(iii) The Auditor should state the reasons for issuing such a report.
(iv) An Adverse Opinion should be 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.

10. Write short note (any three): [3×4 = 12]
(a) Auditor's report on revised accounts of Companies before circulation to shareholders.
(b) Auditor's duty on redemption on debenture
(c) Audit of Bills payable for banks
(d) First Auditor

Answer:

(a) Auditor's report on revised accounts of companies before circulation to shareholders.

There may be instances, where the Management of a Company amends its audited accounts, and re-approves it and then requests the Statutory Auditors to make a Report once again on the amended accounts. The Auditors' duties in this regard are enumerated below;

(i) **Return:** Ensure that all copies of the Original Accounts and Report are returned to the Auditor.

(ii) **Disclosure:** Ensure that the fact of Revision of accounts already approved by the Board and reported upon by the Statutory Auditors, appears as a specific Note on the amended accounts.

(iii) **Reporting:** Reporting requirements are as under

   (a) **Adequate Disclosure:** If the Statutory Auditor is satisfied that the disclosure made by the Company in the Notes on Accounts is adequate, there is no further need for the Auditor to refer to the revision of the Balance Sheet and/ or the Profit and Loss Account in his report.

   (b) **Inadequate Disclosure:** If the Notes on Accounts do not contain any note on the revision or if such Note is not considered as adequately comprehensive by the Auditor, the Auditor should refer to the fact of revision of the accounts in his report.

The above principles are also applicable to the audit of Government Companies.

(b) 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;