Paper 12- Company Accounts & Audit

Paper 12- Company Accounts & Audit

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

Section – A (Company Accounts)

Answer Question No. 1 and any three from Question Nos. 2,3,4 and 5.

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

(i) Transfer to capital redemption reserve account is allowed from these profits.
- (A) Workmen's compensation fund
- (B) Workmen's accident fund
- (C) Voluntary debenture redemption account
- (D) All of the above

(ii) At the time of cancellation of own debentures ____________ A/c is Credited.
- (A) Profit & Loss
- (B) Own Debentures
- (C) CRR
- (D) None of the above

(iii) Which of the following is not a part of financial statement
- (A) Notes to Accounts
- (B) Balance Sheet
- (C) Fund Flow Statement
- (D) Trail Balance

(iv) Audit of Debentures is covered under section
- (A) Sec 71
- (B) Sec 70
- (C) Sec 39
- (D) Sec 133

(v) 14% Debentures of ₹10 each should be disclosed as part of _________ ___________.
- (A) Cash and Cash Equivalents
- (B) Trade Receivables
- (C) Long term borrowings
- (D) None of the above

(vi) Cash receipts from sale of land by a trader of land is a/an
- (A) Operating Activity
- (B) Investing Activity
- (C) Financing Activity
- (D) None of the above

Answer:

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

(b) Match the following: [4×1=4]

	Column 'A'		Column 'B'
1.	**Section 68**	**A.**	**Prohibition for Buy-Back**
2.	**Section 55**	**B.**	**Issue of Application Forms for Securities**
3.	**Section 33**	**C.**	**Buy back of shares**
4.	**Section 70**	**D.**	**Issue and Redemption of Preference Shares**

Answer:

	Column 'A'		Column 'B'
1.	Section 68	C.	Buy back of shares
2.	Section 55	D.	Issue and Redemption of Preference Shares
3.	Section 33	B.	Issue of Application Forms for Securities
4.	Section 70	A.	Prohibition for Buy-Back

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

(i) "Free Reserves" mean such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend.
(ii) Rollover means the issue of new debentures in exchange of old ones.
(iii) Under writing commissions are paid only in cash.
(iv) Debenture carries a fixed rate of dividend.

Answer:

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

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

2. (a) X Ltd. issued 10,000 Equity shares of ₹ 10 each at a premium of ₹ 2 per share, payable : ₹ 3 on application (including premium of ₹ 1); ₹ 4 on allotment (including the balance of premium) and the balance in a call. Public subscribed for 12,000 shares. Excess application money was refunded. One shareholder Mr. A holding 50 shares paid the call money along with allotment. Another Mr. B failed to pay allotment & call on 30 shares.

These shares were forfeited after the call and 25 of those were reissued at ₹ 9 each. Pass Journals Entries. **[7]**

Answer:

X Ltd.
Journal Entries (without narration)

	Particulars		Dr. ₹	Cr. ₹
(1)	Application Money Received: Bank A/c To Equity Shares Application A/c (12000×3)	Dr.	36,000	36,000
(2)	Refund of excess application money: Equity Share Application A/c (2000×3) To Bank A/c	Dr.	6,000	6,000
(3)	Transfer of share application to Share Capital: Equity Shares Application A/c (10,000 ×3) To Equity Shares Capital A/c (10000×2) To Securities Premium A/c (10,000×1)	Dr.	30,000	20,000 10,000
(4)	Allotment Money Due: Equity Shares allotment A/c (10000×4) To Equity Share Capital A/c (10000×3) To Securities Premium A/c (10000×1)	Dr.	40,000	30,000 10,000
(5)	Allotment Money Received: Bank A/c (9,970×4) Calls-in-Arear A/c (30×4) To Equity Share Allotment A/c	Dr. Dr.	39,880 120	40,000
(6)	Bank A/c To Calls in Arrear A/c	Dr.	250	250
(7)	Share Call Money Due: Equity Share First & Final call A/c (10,000 × 5) To Equity Share Capital A/c	Dr.	50,000	50,000
(8)	Call Money Received, Adjustment of Calls-in-Advance: Bank A/c (9,920 × 5) Calls-in-Arrear A/c (30 × 5) Calls-in-Advance A/c To Equity Shares First & Final Call A/c (Received with Allotment, now adjusted)	Dr. Dr. Dr.	49,600 150 250	50,000
(9)	Forfeiture of Shares: Equity Share Capital A/c (30×10) Securities Premium A/c (30×1) To Calls-in-Arrear A/c To Shares Forfeited A/c	Dr. Dr.	300 30	270 60
(10)	Reissue of Forfeited Shares: Bank A/c (25×9) Share Forfeited A/c To Equity Shares Capital A/c (25×10)	Dr. Dr.	225 25	250
(11)	Transfer of Profit on Reissue of Forfeited shares Shares Forfeited A/c To Capital Reserve A/c [25 × (2 - 1)]	Dr.	25	25

Note: Proportionate Profit on reissue: Profit on forfeiture ₹ 60
Therefore, Proportionate profit on 25 shares (those are reissued)

= 60/30 ×25 = 50

Less : Discount on Reissue (25×1) = 25 Transfer to Capital Reserve = 25

(b) On 1st April 2014, Sundaram Ltd. received a Government Grant of ₹600 Lakhs for acquisition of a Machinery costing ₹3,000 Lakhs. The Grant was credited to the cost of the Asset. The life of the Machinery is 5 years. The Machinery is depreciated at 20% on WDV basis. The Company had to refund the Grant in May 2017 due to non-fulfillment of certain conditions. How you would deal with the refund of Grant? [5]

Answer:

Particulars	₹ Lakhs
Original Cost of the Machinery	3,000
Less: Government Grant	600
Depreciable Cost as on 01.04.2014	2,400
Less: Depreciation for 2014-15 [₹2,400 × 20%]	480
WDV on 01.04.2015	1,920
Less: Depreciation for 2015-16 [₹1,920 × 20%]	384
WDV on 01.04.2016	1,536
Less: Depreciation for 2016-17 [₹1,536 × 20%]	307
WDV on 2017	1,229
Add: Refundable Government Grant	600
Revised Book Value of Machinery	1,829
Balance Useful Life	2 Years
Depreciation to be provided for the next 2 years [₹1,829 ÷ 2]	915

3. (a) From the following information Calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditons of Tariff) Regulations, 2004:

1. **Date of Commercial Operation of COD = 1st April 2010**
2. **Approved Opening Capital Cost as on 1st April 2010 = ₹ 15,00,000**
3. **Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average Rate of Interest on Loan is as Follows**

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed)	**1,00,000**	**30,000**	**20,000**	**10,000**

[5]

Answer:

Computation of Return of Equity

Particulars	1st year	2nd year	3rd year	4th year
A. Opening Equity (30%)	4,50,000	4,80,000	4,89,000	4,95,000
B. Additional Equity (30%)	30,000	9,000	6,000	3,000
c. Closing Equity (A + B)	4,80,000	4,89,000	4,95,000	4,98,000
D. Average Equity [(A + C)/2]	4,65,000	4,84,500	4,92,000	4,96,500
E. Return on Equity (D × 14%)	65,100	67,830	68,880	69,510

(b) ABC Ltd. presents you the following information for the year ended 31st March,2017:

Particulars	₹
Net Profit before tax provision	**36,000**
Dividend paid	**10,202**

Income Tax paid	**5,100**
Book value of Assets sold	**222**
Loss on sale of Asset	**48**
Depreciation debited in P& L Account	**24,000**
Capital grant received - amortised in P&L A/c	**10**
Book value of investment sold	**33,318**
Profit on sale of investment	**120**
Interest income from investment credited in P&L A/c	**3,000**
Interest expenditure debited in P&L A/c	**12,000**
Interest actually paid (Financing activity)	**13,042**
Increase in Working Capital excluding cash and Bank Balance	**67,290**
Purchase of Fixed Assets	**22,092**
Expenditure on construction work	**41,688**
Grant received for Capital project	**18**
Long-term borrowing from Banks	**55,866**
Provision for Income tax debited in P&L A/c	**6,000**
Cash and Bank Balance on 01.04.2016	**6,000**
Cash and Bank Balance on 01.04.2017	**8,000**

You are required to prepare a Cash flow statement as per AS 3 (Revised). **[7]**

Answer:

Particulars	₹	₹
(A) Cash flow from Operating Activity		
Net Profit before tax	36,000	
Adjustment for:		
Depreciation	24,000	
Loss on sale of asset	48	
Government grant amortised	(10)	
Profit on sale of investment	(120)	
Interest received	(3,000)	
Interest debited	12,000	
Operating profit before working capital	68,918	
Increase in working capital	(67,290)	
Change	1,628	
Tax paid	(5,100)	
Net cash used in operating activity		(3,472)
(B) Cash flow from investing Activity		
Purchase of fixed asset	(22,092)	
Interest Income	3,000	
Sale of Investment	33,438	
Sale of asset	174	
Expense on Capital Project	(41,688)	
Net Cash used in investing activity		(27,168)
(C) Cash flow from Financing Activity		
Dividend paid	(10,202)	
Grant received	18	
Interest paid	(13,042)	
Long term borrowing	55,866	
Net cash provided from financing activity		32,640
Net increase in cash and cash equivalent		2,000
Cash and cash equivalent of the beginning of the year		6,000
Cash and Cash equivalent at the closing of the year		8,000

4. Upkar Ltd. provides the following Trial Balance as on 31st March 2016:

Particulars	Dr. Balance (₹)	Cr. Balance (₹)
Equity Share Capital 300000 shares of ₹ 10 each fully paid		30,00,000
12% Bank Loan		2,00,000
Furniture	2,25,000	
Machinery	7,50,000	
Building	12,50,000	
Non-current Investment	2,00,000	
Sales		48,00,000
Sales Return	4,00,000	
Interest Received on Investment		47,000
Interest on Bank Loan	20,000	
Purchase	33,20,000	
Purchase Returns		420,000
Opening Stock	2,00,000	
Discount	6,250	
Carriage on Goods Sold	1,39,000	
Rent and Taxes	60,000	
Trade Receivables	12,00,000	
Trade Payables		80,000
Advertisement	1,20,000	
Bad Debt	10,000	
Salaries	4,00,750	
Audit Fees	27,000	
Contribution of P.F.	87,000	
Cash at Bank and in hand	1,32,000	
Total	85,47,000	85,47,000

Additional Information:

(i) Closing Stock as on 31st March 2016 was ₹ 2,12,500

(ii) Depreciation Rates: Furniture 10%; Machinery 20% and Building 10%

(iii) Outstanding salaries as on 31st March 2016 was ₹ 62,250

(iv) Trade receivables include a sum of ₹ 25,000 due from Mr. B. Reddy and trade payables include ₹ 15,000 due to him.

(v) Create a provision for doubtful debt @ 5% on trade receivables.

(vi) Provide for income tax ₹ 80,000.

Prepare a Statement of Profit and Loss for the year ended on 31st March 2016 and a Balance Sheet as on that date. [12]

Answer:

1. Notes to Accounts (Schedules):

Schedule - 1. Employee Benefit Expenditure	₹
Salaries	4,00,750
Outstanding Salaries	62,250
Contribution to P.F.	87,000
	5,50,000

Schedule - 2. Finance Cost	₹
Interest on loan	20,000
Outstanding Interest	4,000
	24,000

Schedule - 3. Other Expenditure	₹
Discount	6,250
Carriage	1,39,000
Rent	60,000
Advertisement	1,20,000
Bad Debt	10,000
Audit fees	27,000
Provision for Bad debt	59,250
	4,21,500

Schedule - 4. Trade Receivable	₹
Total Receivable	12,00,000
(-) Set off	15,000
	11,85,000
(-) Provision @ 5%	59,250
	11,25,750

Schedule - 5. Fixed Assets	Furniture (₹)	Machine (₹)	Building (₹)
Balance	2,25,000	7,50,000	12,50,000
(-) Depreciation	22,500	1,50,000	1,25,000
	2,02,500	6,00,000	11,25,000
Total Fixed Assets			19,27,500
Depreciation			2,97,500

Statement of Profit and Loss for the year ended on 31.03.2016

Particulars	Note	₹
1. Revenue from operation (sales less returns)		44,00,000
II. Other Income (Income from investment)		47,000
III. Total revenue		44,47,000
IV. Expenses:		
Purchase		29,00,000
Changes in inventory i.e. opening less. Closing		(12,500)
Employee Benefit expenses	1	5,50,000
Finance cost	2	24,000
Depreciation	5	2,97,500
Other expenses	3	4,21,500
		41,80,500
V. Profit before exceptional and extraordinary items and tax		2,66,500
VI. Exceptional items		Nil
VI Profit before extraordinary items and tax		2,66,500
VII. Extraordinary items		Nil
VIII. Profit before tax		2,66,500
IX. Tax (provision for tax)		80,000
X. Profit after tax		1,86,500

Balance Sheet as on 31.03.2016

I. Equity and Liabilities	Note	₹
1. Shareholders' Funds		
(a) Share Capital		30,00,000
(b) Reserve and Surplus (Balance of Profit)		1,86,500
2. Share Application money pending allotment		Nil
3. Non-current liabilities (12% Bank loan)		2,00,000
4. Current Liabilities		
Trade Payable (after set off of ₹ 15,000)		65,000

Outstanding interest		4,000
Outstanding salary		62,250
Provision for Tax		80,000
Total		35,97,750
II. Assets		
1. Non-current Assets		
(a) Fixed Assets (Tangible)	5	19,27,500
(b)Non-current Investment		2,00,000
2. Current Assets		
Inventories		2,12,500
Trade Receivable	4	11,25,750
Cash and cash equivalent		1,32,000
Total		35,97,750

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

(a) Geographical Segment as per AS 17;

(b) Forfeiture of Shares vis-à-vis reissue of Forfeited Shares;

(c) Main Characteristics of a Bank's Book-Keeping System;

(d) Finance Lease.

Answer:

(a) Geographical Segment as per AS 17

Geographical Segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

(a) similarity of economic and political conditions;
(b) relationships between operations in different geographical areas;
(c) proximity of operations;
(d) special risks associated with operations in a particular area;
(e) exchange control regulations; and
(f) the underlying currency risks.

(b) Forfeiture of Shares vis-à-vis reissue of Forfeited Shares

When a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares. If a shareholder has not paid any call on the day fixed for payment thereof and fails to pay it even after his attention is drawn to it by the secretary by registered notice, the Board of Directors pass a resolution to the effect that such shares be forfeited. Shares once forfeited become the property of the company and may be sold on such terms as directors think fit. Upon forfeiture, the original shareholder ceases to be a member and his name must be removed from the register of members.

Forfeited shares may be reissued by the company directors for any amount but if such shares are issued at a discount then the amount of discount should not exceed the actual amount received on forfeited shares. The purchaser of forfeited reissued shares is liable for payment of all future calls duly made by the Company.

(c) Main Characteristics of a Bank's Book-Keeping System:

Voucher Posting	Entries in the personal ledger are made directly from vouchers instead of being posted from the books of prime entry.
Voucher Summary Sheets	The vouchers entered into different personal ledgers each day are summarised on summary sheets, totals of which are posted to the control accounts in the general ledger.
Daily Trial Balance	The general ledger trial balance is extracted and agreed every day.
Continuous Checks	All entries in the detailed personal ledgers and summary sheets are checked by persons other than those who have made the entries. A considerable force of such check is employed, with the general result that most clerical mistakes are detected before another day begins.
Control Accounts	A trial balance of the detailed personal ledgers is prepared periodically, usually every two weeks, agreed with general ledger control accounts.
Double Voucher System	Two vouchers are prepared for every transaction not involving cash-one debit voucher and another credit voucher.

(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 end of 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 (Auditing)

Answer Question No. 6 and any three from Question Nos. 7,8,9 and 10.

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

(i) Audit Procedures to obtain audit evidences include
(A) Compliance Procedure
(B) Substantive Procedure
(C) Both (A) and (B)
(D) Neither (A) nor (B)

(ii) A Cost Auditor submits his report to
(A) Board of Directors
(B) Government
(C) Shareholders
(D) Statutory Auditor

(iii) The first Auditor of a Company shall be appointed by the Board of Directors within
- **(A) 30 days from the date of registration.**
- **(B) 90 days from the date of registration.**
- **(C) 30 days from the date of first AGM.**
- **(D) 1 year from the date of registration.**

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

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

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

Answer:

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

(b) Match the following: **[4×1=4]**

	Column 'A'		**Column 'B'**
1.	**Statutory Audit**	**A.**	**Disclaimer of Opinion**
2.	**Unable to form an overall conclusion on Financial Statement**	**B.**	**Comptroller and Auditor General of India**
3.	**Audit Report with reservations**	**C.**	**Tax Audit**
4.	**The authority for Govt. Audit**	**D.**	**Qualified Audit Report**

Answer:

	Column 'A'		**Column 'B'**
1.	Statutory Audit	C	Tax Audit
2.	Unable to form an overall conclusion on Financial Statement	A	Disclaimer of Opinion
3.	Audit Report with reservations	D	Qualified Audit Report

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) Audit report should comply with the requirements made by statues.
(ii) An audit work reflects the work done by the management.
(iii) The first auditor of a company is appointed by the shareholders of the company at the general meeting.
(iv) A company auditor can render actuarial services to his client.

Answer:

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

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

7. (a) Define 'Audit Engagement Letter'. What are the general contents of an audit engagement letter? [2+5=7]

(b) 'Internal audit involves five areas of operations: .'—Discuss. [5]

Answer:

(a) Unlike a statutory audit, in a non-statutory audit the objective and scope of an audit is not clearly described in any law. Accordingly, a misunderstanding may arise about the exact scope of the work. Thus to avoid any kind of misunderstanding or dispute it is in the interests of both the auditor as well as the client to exactly define the scope of the engagement. An auditor's engagement letter signifies the confirmation by the auditor of his acceptance of appointment as auditor, the documentation of the objective and scope of audit or other work, and the extent of his responsibilities to the client and the form of any reports.

Although the form and content of the engagement letter differs from client to client but in general the following references should be made in audit engagement letter:
(i) The objective and the scope of the engagement.
(ii) Management's responsibility for the financial statements.
(iii) The existence of inherent limitations of audit and resulting material misstatements that may remain undiscovered,
(iv) The need for use of services of internal auditors and/or other experts that may arise during the course of the engagement.
(v) The requirement of management confirmation letter as regards representations made by them concerning audit.
(vi) Restriction of the auditor's liability, if any.
(vii) Basis for computation of audit fees and billing arrangements.
(viii) The form of reports or other communication of results of the engagement.

(b) According to the Institute of Internal Auditors, internal audit involves five areas of operations:

i. Reliability and integrity of financial and operating information: Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measures, classify and report such information.
ii. Compliance with laws, policies, plans, procedures and regulations: Internal auditor should review the systems established to ensure compliance with those policies, plan and procedures, law and regulations which could have a significant impact on operations and reports and should determine whether the organization is in compliance thereof.
iii. Safeguarding of Assets: Internal auditors should verify the existence of assets and should review the means of safeguarding assets.
iv. Economic and efficient use of resources: Internal auditor should ensure the economic and efficient use of resources available.
v. Accomplishing of established objectives and goals for operations: Internal auditor should review operation or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.

8. (a) Discuss — "Functions and powers of Audit Committee".

(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) Functions and powers of Audit Committee

The various Functions of the Audit Committee is enumerated below;

1. For the appointment and fixation of the remuneration of Auditor.
2. Examination of the Financial Statement.
3. Scrutiny of Inter Corporate Loans and Investment,
4. Valuation of the Assets of the Company,
5. Evaluation of the internal financial control and risk management system of the entity.
6. Evaluation of the use of the funds rose through public offers.
7. Evaluation of any related party transaction.

The powers of the Audit Committee are enumerated below;

(i) Audit Committee has the power to call for comments of the Auditor about Internal Control Systems and the scope of the Audit including its observation.
(ii) Before submission of the report to the Board the Audit Committee have the power to review the Financial Statement.
(iii) Power to discuss any issues with the Statutory & Internal Auditor and the Management of the Company in relation to matter contained in the Financial Statement.

(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) 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;