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.

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

(i) Segment Reporting is covered under
- **(A) AS 16**
- **(B) AS 17**
- **(C) AS 18**
- **(D) AS 19**

(ii) Balance of Interest Accrued on Security Deposit A/c of an Electricity company should be shown
- **(A) under Current Liability.**
- **(B) under Non-current Liability.**
- **(C) under Current Asset.**
- **(D) under Non-current Asset.**

(iii) Which of the following items is not a part of cash flow from operating activities?
- **(A) Collection from customers**
- **(B) Payment of outstanding wages**
- **(C) Payment to suppliers of machinery**
- **(D) Advances to foreign suppliers for raw materials**

(iv) Provision is created for
- **(A) Unknown Liability**
- **(B) Known Liability**
- **(C) Creation of secret reserve**
- **(D) None**

(v) Transfer to capital redemption reserve account is not allowed from this profit:
- **(A) General reserve**
- **(B) Reserve fund**
- **(C) Dividend equalisation fund**
- **(D) Forfeited shares account**

(vi) Which of the following is not a mandatory financial statement of a General Insurance Company as per IRDA regulations?
- **(A) Revenue Account**
- **(B) Profit and Loss Account**
- **(C) Balance Sheet**
- **(D) Fund Flow Statement**

Answer:

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

(b) Match the following items in Column 'A' with items shown in Column 'B': 1×4=4

	Column 'A'		Column 'B'
1.	Segment Reporting	A.	Capital Redemption Reserve
2.	Redemption of Debentures	B.	AS 15
3.	Un-guaranteed Residual Value (GRV)	C.	AS 17
4.	Defined benefit plans	D.	AS 19

Answer:

	Column 'A'		Column 'B'
1.	Segment Reporting	C.	AS 17
2.	Redemption of Debentures	A.	Capital Redemption Reserve
3.	Un-guaranteed Residual Value (GRV)	D.	AS 19
4.	Defined benefit plans	B.	AS 15

(c) State whether the following statements are True or False: 1x4=4

(i) Except as provided in section 54, a company shall not issue shares at a premium.
(ii) 'Marked' applications are those applications which bear the stamp of an underwriter.
(iii) Interest received by a finance company is a part of cash flow from investing activities.
(iv) Schedule III deals only with presentation and disclosure requirements.

Answer:

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

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

2. (a) A Ltd. with a Capital of ₹ 10 Lakhs divided into Equity Shares of ₹ 10 each places its entire issue on the market and the whole issue has been underwritten as follows

Name of Underwriter	S	P	G	M	N	SA
Number of Shares	30,000	35,000	10,000	15,000	2,000	8,000

All marked forms are to go in relief of the liabilities of the underwriter whose name they bear. The share underwritten "Firm" are also to be set off against the liabilities of the underwriters. The application received in Marked Forms is as follows:

Name of Underwriter	S	P	G	M	N	SA
Number of Shares	25,000	23,500	5,500	1,000	1,000	2,000

Applications for 20,000 Equity Shares are received on Unmarked Forms. In addition, there is a Firm Underwriting by the Underwriters as under

Name of Underwriter	S	P	G	M	N	SA
Number of Shares	500	1,500	7,000	3,000	1,000	4,000

Calculate the liability of the individual underwriters. [8]

Answer:

Statement of Underwriters Liability (Figures in No. of shares)

Particulars	S	P	G	M	N	SA	Total
Ratio of Gross Liability	30%	35%	10%	15%	2%	8%	100%
Gross Liability (given)	30,000	35,000	10,000	15,000	2,000	8,000	1,00,000
Less: Unmarked Applications In the ratio of Gross Liability	6,000	7,000	2,000	3,000	400	1,600	20,000
	24,000	28,000	8,000	12,000	1,600	6,400	80,000
Less: Marked Applications	(25,000)	(23,500)	(5,500)	(1,000)	(1,000)	(2,000)	(58,000)
	(1,000)	4,500	2,500	11,000	600	4,400	22,000
Less: Firm underwriting	(500)	(1,500)	(7,000)	(3,000)	(1,000)	(4,000)	(17,000)
	(1,500)	3,000	(4,500)	8,000	(400)	400	5,000
Adjustment: Surplus of S , G , and N to P, M and SA transferred to P,M and SA in Gross Liability Ratio at 35:15:8	1500	(3862)	4,500	(1,655)	400	(833)	-
	-	(862)	-	6,345	-	(483)	5,000
Adjust: Transfer of surplus of P and SA to M	-	862	-	(1,345)	-	483	-
Net Liability	-	-	-	5,000	-	-	5,000
Add: Firm Underwriting	500	1,500	7,000	3,000	1,000	4,000	17,000
Total Liability	500	1,500	7,000	8,000	1,000	4,000	22,000

(b) Information relating to five segments of V Ltd. is as under: **(₹ in lakhs)**

Segments	**A**	**B**	**C**	**D**	**E**	**Total**
Segment Revenue	**100**	**300**	**200**	**100**	**300**	**1,000**
Segment Result	**40**	**(60)**	**90**	**10**	**(30)**	**50**
Segment Assets	**45**	**55**	**140**	**20**	**40**	**300**

As a cost accountant of this company management wishes to know from you which company need to be reported. **[4]**

Answer: **(₹ in lakh)**

Particulars	A	B	C	D	E	Total
1. Segment Revenue	100	300	200	100	300	1,000
2. % of Segment Revenue	10%	30%	20%	10%	30%	
3. Segment Result: Profit Loss	40	(60)	90	10	(30)	140 (90)
4. % of segment Result, absolute amount of profit/loss whichever is higher, i.e. as a % of 140	28.57%	42.88%	64.29%	7.14%	21.43%	
5. Segment Assets	45	55	140	20	40	300
6. % of Segment Assets	15%	18.33%	46.67%	6.66%	13.33%	
Reportable Segment	Yes	Yes	Yes	Yes	Yes	

Criteria satisfied	Revenue, Result & Assets	Revenue, Result & Assets	Revenue, Result & Assets	Revenue	Revenue, Result & Assets	

3. (a) From the following ledger balances calculate interest earned and interest expected as per Schedule 13 and 15 respectively (Figure being in thousand of ₹)

Particulars	Amount	Particulars	Amount
Interest on Term Loans	**1,540**	**Discount on Bills Discounted**	**200**
Interest on Fixed Deposits	**1,000**	**Interest and Dividend on Investments**	**840**
Interest on Recurring Deposits	**500**	**Interest accrued on Investments**	**40**
Interest on Saving Bank Deposits	**600**	**Interest on balances with RBI**	**100**
Interest on Cash Credits	**1,820**	**Interest on Money at call**	**50**
Interest on Borrowings	**620**	**Interest on overdrafts**	**750**

Additional Information:

(i) Interest on NPA is as follows:

Particulars	Earned ₹000	Collected ₹000
Term Loans	**750**	**250**
Cash Credits	**820**	**400**
Overdrafts	**450**	**100**

(ii) Rebate on Bills Discounted: Opening Balance ₹75, Closing Balance ₹125. **[7]**

Answer:

Schedule 13 — Interest Earned

Particulars	₹000	₹000
Interest on Term Loan (1,540 – 500)	1,040	
Interest on Cash Credits (1,820 – 420)	1,400	
Interest on Overdraft (750 – 350)	400	
Discount on Bills discounted (200 + 75 – 125)	150	2,990
Income on Investments		840
Interest on Balances with RBI		100
Interest on Money at call and at short notice		50
		3,980

Schedule 15 — Interest Expended

Particulars	₹000
Interest on Fixed Deposits	1,000

Interest on Recurring Deposits	500
Interest on Saving Bank Deposits	600
Interest on Borrowings	620
	2,720

Note: Interest accrued on Investments has already **been adjusted in the figure of ₹840 and hence no further adjustment has been made.**

(b) From the following information calculate Cash flow from Operating Activities:

Particulars	**Closing**	**Opening**
Trade Payables	**1,65,000**	**40,000**
Intangible Assets (Goodwill)	**21,000**	**10,000**
Inventories	**1,69,000**	**54,000**
Trade Receivables	**3,76,000**	**4,06,000**

During the year, the business of Y Ltd. was purchased for ₹60,000 payable in fully paid equity shares of ₹10 each at 20% premium. The assets included Inventories ₹15,000. Trade Receivables ₹10,000 and machine ₹30,000. Trade payables of ₹15,000 were also taken over. Net Profit before tax for the year was ₹7,98,000. Tax paid during the year ₹10,000. [5]

Answer:

Particulars	₹	₹
A. Net Profit before tax		7,98,000
B. Add: Goodwill amortised		9,000
C. Operating Profit before Working Capital Changes		8,07,000
D. Changes in Current Assets and Current Liabilities		
Increase in Inventories [(1,69,000 -15,000) – 54,000]	(1,00,000)	
Decrease in Trade Receivables [(3,76,000 - 10,000) – 4,06,000]	40,000	
Increase in Trade Payables [(1,65,000 – 15,000) – 40,000]	1,10,000	50,000
E. Net Cash Flow from Operating Activities before tax		8,57,000
F. Less: Tax paid		(10,000)
G. Net Cash Inflow From Operating Activities after Tax		8,47,000

Note: Goodwill Amortised

= Goodwill Purchased + Opening Goodwill - Closing Goodwill

= [₹60,000 – (₹15,000 + ₹10,000 + ₹30,000 - ₹15,000] + ₹10,000 - ₹21,000 = ₹9,000

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) Central Electricity Regulatory Commission (CERC);

(b) Treatment of Service Line Cum Development Charges;

(c) Disclosure requirement as per AS 11;

(d) Advantages of buy-back.

Answer:

(a) 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.

(b) Treatment of Service Line Cum Development Charges:

Following different accounting and reporting practices are noticed in published Financial Statements of some Electricity Companies:

Accounting Practice 1: SLD is accounted for as a liability and subsequently proportionate amount is transferred to Income Statement during the expected life of the Asset.

Accounting Practice 2: SLD is accounted for as Reserve as the amount is not refundable and disclosed under the head Reserves and Surplus without transferring any proportionate amount to Income Statement during the expected life of the Asset.

Accounting Practice 3: SLD is accounted for as Capital Reserve as the amount is not refundable and subsequently proportionate amount is transferred to Income Statement during the expected life of the Asset to match against depreciation on total cost of such asset.

Accounting Practice 4: SLD is accounted for as reduction in the cost of Non-Current Asset and depreciation is provided on such reduced cost.

(c) Disclosure under AS -11: An enterprise should disclose:

a) The amount of exchange difference included in the net profit or loss for the period.

b) The amount of exchange difference adjusted in the carrying amount of fixed assets during the accounting period.

c) The amount of exchange difference in respect of forward contracts to be recognized in the profit/ loss for one or more subsequent accounting period.

d) Foreign currency risk management policy.

(d) Buy-back have the following advantages:

(i) A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital.

(ii) Free reserves which are utilized for buy-back instead of dividend enhance the value of the company's shares and improve earnings per share.

(iii) Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax.

(iv) Buy-back may be used as a weapon to frustrate any hostile take-over of the company by undesirable persons.

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) The most comprehensive type of audit is the _________system audit, which examines suitability and effectiveness of the system as a whole.

(A) Quantity
(B) Quality
(C) Preliminary
(D) Sequential

(ii) Each of the three parties involved in an audit _____________ plays a role that contributes to its success.

(A) the client, the auditor, and the auditeer
(B) the client, the auditor, and the audite
(C) the client, the moderator, and the auditee
(D) the client, the auditor, and the auditee

(iii) SA 300 stands for ___________________.

(A) Quality control for an audit of financial Statements
(B) Agreeing the terms of Audit engagements.
(C) Audit Planning
(D) Responsibility of Joint Auditor

(iv) Internal Check is a valuable part of the _______________ control.

(A) Internal
(B) External
(C) Bothe (a) and (b)
(D) None of the above

(v) Remuneration of auditors is covered under Section ____________ of Companies Act, 2013.

(A) Section 142

(B) Section 148
(C) Section 139
(D) None of the above

(vi) CAATS stands for
(A) Cornwall Air Ambulance Trust
(B) Children Air Ambulance Trust
(C) Center for alternatives to Animal Testing
(D) Computer Assisted Auditing Techniques

Answer:

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

(b) Match the following: **[4×1=4]**

	Column 'A'		**Column 'B'**
1.	**Government Company**	**A.**	**Unqualified Opinion.**
2.	**Detailed of audit work to be performed**	**B.**	**Audit Programme**
3.	**Maximum term of Individual Auditor**	**C.**	**A company which is a subsidiary of Government Company**
4.	**True and Fair Audit Report**	**D.**	**1 term of 5 years**

Answer:

	Column 'A'		**Column 'B'**
1.	Government Company	**C.**	A company which is a subsidiary of Government Company
2.	Detailed of audit work to be performed	**B.**	Audit Programme
3.	Maximum term of Individual Auditor	**D.**	1 term of 5 years
4.	True and Fair Audit Report	**A.**	Unqualified Opinion

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

(i) An audit report should have a proper title.
(ii) Auditor has right to disclose the client information to a third party.
(iii) An in depth examination to detect a suspected fraud is termed as Investigation.
(iv) "Debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

Answer:

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

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

7. (a) State the advantages of continuous audit.
(b) How would you determine the materiality of an item, while conducting audit.
[5+7 = 12]

Answer:

(a) Advantages of continuous audit:

Continuous audit may be defined as the examination and verification of a firm's financial transactions and their supporting documents, continuously throughout the year, at regular or irregular intervals. Its main advantages are as follows:

(i) Early location of errors and frauds: It helps in detecting errors and frauds immediately on their occurrence, and not at the year end when it would become difficult to install corrective control mechanisms.
(ii) Quick rectification: Rectification of errors at an early stage is possible.
(iii) Guidance: Continuous guidance to client.
(iv) Finalizations of accounts completion in time: Just at the end of the accounting period.
(v) Moral check: Make employees of the client alert and more efficient in conducting their work.
(vi) Improves statutory auditor's focus: It relieves statutory auditors of routine testing and allows them to focus efforts on more valuable activities.

(b) Concept of "Materiality" in performing the audit

Materiality is one of the basic fundamental concepts in the process of Accounting and Auditing. It is a continuous process and covers in its ambit all the stages from recording to classification and presentation. An auditor has to constantly judge whether a particular item or transaction is material or not.

The main factors to be considered for determining materiality of an item are:

(i) Individually: It may be determined individually. E.g., a payment of ₹1000 may be material in a small business, but even ₹1 lac could be immaterial for a big business entity.
(ii) Aggregate: It may be determined in aggregate. E.g., total income from investment in mutual funds could be more material than looking into each individual investment.
(iii) Legal Considerations: It depends on the statutory or legal considerations. E.g., where the terms of appointment of a whole time director are not according to law, the remuneration paid to him is a material item even if the financial implication is not much.

(iv) Legal Definition: It may be defined or described in law itself. E.g., Schedule III requires separate disclosure of items of all expenses exceeding 1% of turnover or to write off capital assets purchased for less than ₹5000.

(v) Relative overall impact: It may depend on the relative degree of relevance to the overall accounts or the group, or class of transactions to which it pertains. E.g., short recoveries from debtors.

(vi) Qualitative: It may be qualitative and not often reckoned with respect to quantitative details alone. E.g, improper disclosure of an accounting policy in the Notes to the Annual Financial Statements may affect economic decisions.

(vii) Insignificant quantity but special context: It maybe of an insignificant quantity otherwise, but material in special circumstances. E.g., rounding off to the nearest rupee the fraction of 0.666 as 0.67 in computer software. It may be material in future due to cumulative effect even if insignificant now.

8. (a) Who are the persons not qualified for appointment as an Auditor of a company under section 141 of the Companies Act 2013? [7]

(b) Mention the services that an Auditor cannot render u/s 144 of the Companies Act 2013. [5]

Answer:

(a) As per Section 141(3) read with Rule 10 of Company (Audit and Auditor) Rule 2014, the following persons shall not be eligible for appointment as an auditor of a company:

(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, of face value not exceeding rupees one lakh;

  (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 rupees five lakh;

  (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, in excess of rupees one lakh;

(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.

(b) According to Section 144 of the Companies Act 2013, 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 may be. However, such services shall not include the following services, whether rendered directly or indirectly to the company or its holding company or subsidiary company.

(a) accounting and book keeping services;
(b) internal audit;
(c) design and implementation of any financial information system;
(d) actuarial services;
(e) investment advisory services;
(f) investment banking services;
(g) rendering of outsourced financial services;
(h) management services; and
(i) any other kind of services as may be prescribed.

9. (a) Is Rotation applicable to cost auditor? [5]

(b) Discuss the features of a qualified report. [7]

Answer:

(a) The provisions for maintenance of cost accounting records and cost audit are governed by Section 148 of the Companies Act, 2013. The provisions of Section 148 clearly states that no person appointed under Section 139 as an auditor of the company shall be appointed for conducting audit of cost records of the company. Section 148 also provides that qualifications, disqualifications, rights, duties and obligations applicable to auditors (financial) shall apply to a cost auditor appointed under this section. The eligibility, qualifications and disqualifications are provided in Section 141 of the Act and powers and duties are provided in Section 143. Section 143(14) specifically states that the provisions of Section 143 shall mutatis mutandis apply to a cost auditor appointed under Section 148. There are no other provisions governing the appointment of a cost auditor.

Section 139(3) of the Act, applicable to appointment of auditors (financial), and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with Public Sector Undertakings.

(b) The features of a Qualified Report are –

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 be 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) Joint Audit and its advantages;
(b) Features of inventories that have an impact on the related audit procedures;
(c) Types of Banking institutions prevailing in India;
(d) Audit of Re-issue of forfeited shares.

Answer:

(a) Joint Audit and its advantages

In big corporate more than one persons or firm of Chartered Accountants are appointed as a Joint Auditor for conducting the audit of the company. This practice of appointing joint auditor accrues great advantages to the company. In a big organisation the task of carrying audit cannot be accomplished with single individual so for overcoming such situation joint auditors are appointed.
Advantages of Joint Audit:

i. Lower workload ;
ii. Timely completion of work;
iii. Sharing of expertise ;
iv. Improved quality of services;
v. Healthy competition ;
vi. Quality of performance.

(b) The following features of inventories have an impact on the related audit procedures:

i. By their very nature, inventories normally turn over rapidly.
ii. Inventories are susceptible to obsolescence and spoilage. Further, some of the items of inventory may be slow-moving while others may follow a seasonal pattern of movement.
iii. Inventories are normally movable in nature, although there may be some instances of immovable inventories also, e.g., in the case of an entity dealing in real-estate.

iv. All the items of inventory may not be located at one place but may be held at different locations such as factories and warehouses, or with third parties such as selling agents.
v. The individual items of inventory may not be significant in value, but taken together, they normally constitute a significant proportion of total assets and current assets of manufacturing, trading and certain service entities.
vi. Physical condition (e.g., stage of completion of work-in-process in certain industries) and existence of certain items of inventories may be difficult to determine.
vii. Valuation of inventories may involve varying degrees of estimation, including expert opinions, e.g., in the case of jewelry.

(c) There are following types of Banking institutions prevailing in India:
(a) Commercial banks;
(b) Regional Rural banks;
(c) Co-operative banks;
(d) Development banks (more commonly known as 'term-lending institutions');
(e) Payment Banks; and
(f) Small Finance Banks.

(d) Audit of Re-issue of forfeited shares:

i. The auditor should ascertain that the board of directors has the authority under the Articles of Association of the company to reissue forfeited shares. Check the relevant resolution of the Board of Directors.
ii. Vouch the amounts collected from persons to whom the shares have been allotted and verify the entries recorded from re-allotment. Auditor should check the total amount received on the shares including received prior to forfeiture, is not less than the par value of shares.
iii. Verify that computation of surplus amount arising on the reissue of shares credited to Capital Reserve Account and
iv. Where partly paid shares are forfeited for non-payment of call, and re-issued as fully paid, the reissue is considered as an allotment at a discount and compliance of the provisions is essential.