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) Which of the following is/are long term source/s of finance?
(A) Issue of Shares
(B) Debentures
(C) Loans
(D) **All of the above**

(ii) When a shareholder fails to pay calls, the company, if empowered by its articles, may ______________ the shares.
(A) **Forfeit**
(B) Surrender
(C) Buy-back
(D) None of the above

(iii) ______ ______ implies bank balance and other risk-free short term investments, and advances which are readily encashable.
(A) Cash
(B) **Cash Equivalent**
(C) Cash Flow
(D) None of the above

(iv) A/an _________ holder has voting right.
(A) Debenture
(B) Preference Share
(C) **Equity Share**
(D) Both (A) and (B)

(v) General Ledger of a Banking Company contains__________
(A) Control Accounts of all personal ledgers
(B) Profit and Loss Account
(C) Contra Accounts
(D) **All of the above**

(vi) _________ _________is the currency of the primary economic environment in which the entity operates.
(A) **Reporting Currency**
(B) Foreign Currency
(C) Closing Rate
(D) None of the above

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

	Column 'A'		Column 'B'
1.	**Government Grant**	**A.**	**Segment assets are 10 per cent or more of the total assets of all**

			segments
2.	**AS 15**	**B.**	**Qualifying assets**
3.	**AS 16**	**C.**	**Post-employment benefits**
4.	**Reportable Segment**	**D.**	**Assistance by government**

Answer:

	Column 'A'		Column 'B'
1.	Government Grant	D.	Assistance by government
2.	AS 15	C.	Post-employment benefits
3.	AS 16	D.	Qualifying assets
4.	Reportable Segment	A.	Segment assets are 10 per cent or more of the total assets of all segments

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

(i) A operating lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset.
(ii) Segment result is Segment Expense less Segment Revenue.
(iii) Bonus is the share of profit which is payable by the insurance company to the policy holders.
(iv) IPO is made when company seeks to raise capital via public investment but FPO is a subsequent public contribution.

Answer:

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

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

2. (a) On 01.01.2018 Bharti Ltd. had 4,000, 10% Debentures of ₹ 100 each. On 01.06.2018 the company purchased 800 Own Debentures at ₹ 97 cum-interest in the open market. Interest on debentures is payable on 30th June and 31st December each year.

Required: Give the necessary journal entries assuming —
Own Debentures purchased were retained as investments till 31.12.2018 and were cancelled on the same date.

[The company follows English Calendar Year.] [6]

Answer:

Journal of Jay Ltd.

Date	Particulars		L.F.	Dr.(₹)	Cr.(₹)
June 01	Own Debentures A/c	Dr.		74,267	
	Interest on Own Debenture A/c	Dr.		3,333	
	To Bank A/c				77,600
	(Being the purchase of 800 debentures @ ₹97 cum-interest)				
June 30	Debentures Interest A/c	Dr.		20,000	

	To Interest on Own Debentures A/c To Bank A/c (Being the interest paid/credited on ₹4,00,000 debentures held by outsiders and by the company own debentures for 1 month)				4,000 16,000
Dec. 31	Debentures Interest A/c To Bank A/c To Interest on Own Debentures A/c (Being the interest paid / credited on ₹3,20,000 debentures held by outsiders and ₹80,000 own debentures for six months)	Dr.		20,000	 16,000 4,000
Dec. 31	Profit and Loss A/c To Debenture Interest A/c (Being the transfer of debenture interest to P&L A/c)	Dr.		20,000	 20,000
Dec. 31	Interest on Own Debentures A/c To Profit & Loss A/c (Being the transfer of interest on own debentures to P&L A/c)	Dr.		4,667	 4,667
Dec. 31	12% Debentures A/c To Own Debentures A/c To Capital Reserve A/c (Being the cancellation of 800 own debentures)	Dr.		80,000	 74,267 5,733
Dec. 31	Profit & Loss Appropriation A/c To Debenture Redemption Reserve A/c (Being the transfer of an amount equivalent to the cash sum applied in redeeming the debentures)	Dr.		74,267	 74,267

(b) MM Ltd. has eight segments A, B, C, D, E, F, G and H. The following information is available in relation to

(₹ in Lakhs)

Particulars	A	B	C	D	E	F	G	H	Total
Segment Revenue									
• **External Sales**	**Nil**	**1,020**	**60**	**40**	**60**	**200**	**80**	**140**	**1,600**
• **Inter-Segment Sales**	**400**	**240**	**120**	**20**	**Nil**	**Nil**	**20**	**Nil**	**800**
Total Revenue	**400**	**1,260**	**180**	**60**	**60**	**200**	**100**	**140**	**2,400**
Segment Result - Profit (Loss)	**20**	**(360)**	**60**	**(20)**	**32**	**(20)**	**20**	**28**	**(240)**
Segment Assets	**90**	**282**	**30**	**66**	**18**	**30**	**30**	**54**	**600**

Identify which of the above constitute Reportable Segments, if you were informed that A, B, C and E were the Reported Segments in the last financial year.

[6]

Answer:

(₹ in Lakhs)

Particulars	A	B	C	D	E	F	G	H	Total
1. Segment Revenue									
• External Sales	Nil	1,020	**60**	40	**60**	200	**80**	**140**	1,600
• Inter-segment Sales	400	240	**120**	20	Nil	Nil	20	Nil	800
2. Total Revenue	400	1,260	**180**	**60**	**60**	200	**100**	**140**	2,400
3. Segment Revenue as percentage of total	**16.7%**	**52.5%**	**7.5%**	**2.5%**	**2.5%**	**8.3%**	**4.2%**	**5.8%**	**100%**
4. Segment Result - Profit	20		**60**		**32**		20	**28**	160

5. Segment Result - (Loss)		(360)		**(20)**		**(20)**			(400)
6. Percentage of Segment Result on (200) i.e. Profit / Loss whichever is higher in absolute	**5%**	**90%**	**15%**	**5%**	**8%**	**5%**	**5%**	**7%**	
7. Segment Assets	**90**	282	**30**	**66**	**18**	**30**	**30**	**54**	600
8. Percentage of Segment Assets	**15%**	**47%**	**5%**	**11%**	**3%**	**5%**	**5%**	**9%**	**100%**
9. Condition Satisfied	**S,A**	**S,R,A**	**R**	**A**	**-**	**-**	**-**	**-**	

Note: S = Sales Condition, R = Result Condition, A = Assets Condition

1. **10% Thresholds:** From the above, A, B, C and D become Reportable Segments since they satisfy Revenue / Result / Assets criteria.
2. **Continuity Principle:** As Segment E was reported in the previous financial period, it is also identified as Reportable Segment for the current financial period.
3. **75% Revenue Principle:** Total Enterprise Revenue = ₹1,600 lakhs, Total Revenue from **External Sales** of A, B, C, D and E Segments = ₹1,180 Lakhs, which is only 73.75% of the Total Enterprise Revenue.
   Hence, to meet 75% condition, any one of the other Segments F, G, H should be identified as an additional Reporting Segment. If the Company desires that Segment G should be reported to meet this 75% Revenue Condition, the Reportable Segments are A, B, C, D, E and G. In that case, F and H will be shown as reconciling items.

3. (a)

From the Balance Sheet of K Ltd as given below ascertain the cash flow from operating activity:

Liabilities	31.03.2017	31.03.2018	Assets	31.03.2017	31.03.2018
Share Capital	**500**	**500**	**Land & Building**	**300**	**300**
9% Debentures	**200**	**160**	**Machinery**	**164**	**180**
Sundry Creditors	**230**	**216**	**Stock in Trade**	**200**	**228**
Profit and Loss A/c	**40**	**54**	**Sundry Debtors**	**170**	**162**
Depreciation Fund	**80**	**88**	**Cash and Bank Balances**	**382**	**300**
Contingency Reserve	**140**	**110**	**Pre-Paid Expenses**	**4**	**6**
Outstanding Expenses	**30**	**48**			
Total	**1,220**	**1,176**	**Total**	**1,220**	**1,176**

- **One old Machinery which has Original Cost of ₹30,000 was sold for ₹10,000. The Accumulated Depreciation in respect of the said Machinery amounts to ₹16,000. One new Machinery was acquired for ₹46,000.**
- **9% Debentures were redeemed at a discount of 4% on their Face Value. (Redemption was made at the beginning of the year).**
- **Dividend at 12% was declared and paid in Cash.**
- **Income Tax Liability of ₹30,000 paid was debited in Contingency Reserve. [8]**

Answer:

Cash Flow Statement of K Limited for the year ended 31st March 20X2 - Indirect Method

Particulars	₹ (000's)	₹ (000's)
Cash Flow from Operating Activities		
Profit before Taxation [(54 - 40) + Dividend distributed ₹ 60]	74.0	
Adjustment for:		
Transfer to Depreciation Fund	24.0	
Loss on Sale of Machinery	4.0	
Discount on Redemption of Debentures (40 x 4%)	**(1.6)**	
Debenture Interest (160 x 9%) -Assumed Redemption made at beginning of the year	14.4	
Operating Profit before Working Capital Changes	**114.8**	
Adjustment for:		
Decrease in Sundry Creditors (230 - 216)	**(14.0)**	
Increase in Outstanding Expenses (48 - 30)	18.0	
Decrease in Debtors (170 - 162)	8.0	
Increase in Stock (228 - 200)	**(28.0)**	
Increase Prepaid Expenses (6 - 4)	**(2.0)**	
Cash Generated from Operations	**96.8**	
Less: Income Taxes paid	**(30.0)**	
Net Cash Flow from / (used in) Operating Activities		**66.8**

Working Note:

Dr. **Machinery Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	164	By Accumulated Depreciation – for Machinery sold	16
To Bank A/c – Purchase of New Machinery	46	By Bank A/c – Sale Proceeds	10
		By Profit & Loss A/c – Loss on Sale of Old Machinery	4
		By Balance c/d	180
	210		210

Dr. **Accumulated Depreciation Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c – tfr for Machinery sold	16	By Balance b/d	80
To Balance c/d	88	By Profit and Loss A/c – Depreciation for current year	24
	104		104

(b) From the following information Calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions 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**

[4]

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

4. ABC Limited has an authorized capital of ₹ 5,00,000 divided into 5000 equity shares of ₹ 100 each. On 31.03.2018, 2500 shares were fully called up.

The following are the balance extracted from the ledger of the company as on 31.03.2018:

	₹		₹
Inventory	50,000	Advertisement	3,800
Sales	4,50,000	Bonus	10,500
Purchases	3,25,000	Accounts receivable	38,700
Productive wages	70,000	Accounts payable	35,200
Discount allowed	4,200	Plant and Machinery	80,500
Discount received	3,150	Furniture	17,100
Insurance (year up to 30.06.2018)	6,720	Cash at bank	1,30,000
Salaries	18,500	Cash in hand	4,700
Rent	6,000	Reserves	25,000
General expenses	8,950	Loan from Managing Director	15,700
Profit and Loss a/c (cr.)	6,220	Bad debts	3,200
Printing and Stationary	2,400	Calls in arrears	5,000
		Share capital	2,50,000

Also the following information are given:

(a) Closing inventory is ₹91,500;

(b) Depreciation to be charged on plant and furniture at 15% and 10% respectively;

(c) Outstanding liabilities—wages at ₹5,200, salaries at ₹1,200 and rent at ₹600;

(d) Salesman are entitled to a commission of 1% on sales;

(e) ₹4,000 are to be transferred to General reserves;

(f) Dividend on paid up share capital is to be provided @ 5%.

You are required to prepare Profit and Loss Statement for the year ended 31.03.2018 and the Balance Sheet as on that date in accordance with the Companies Act, 2013 in the Vertical Form along with the Notes on Accounts. [12]

Answer:

4.

Balance Sheet of ABC Limited as on 31st March, 2018

Particulars	Note No.	Amount (₹)
I. Equity & Liabilities		
(1) Shareholders' Funds:		
(a) Share Capital	1	2,45,000
(b) Reserves & Surplus	2	42,995
(2) Non-Current Liabilities		

(a) Long Term Borrowing	3	15,700
(3) Current Liabilities:		
(a) Trade Payable		35,200
(b) Other Current Liabilities	4	11,500
		3,50,395
II. Assets		
(1) Non-Current Assets		
Fixed Assets		
Tangible Assets	5	83,815
(2) Current Assets:		
(a) Inventories		91,500
(b) Trade Receivables		38,700
(c) Cash & Cash Equivalents		1,34,700
(d) Short Term Loans & Advances (Prepaid Insurance)		1,680
		3,50,395

Profit and Loss Statement for the year ended 31st March, 2018

Particulars	Note No.	Amount (₹)	Amount (₹)
I. Revenue From Operation			4,50,000
II. Other Income			3,150
III. Total Revenue (I+II)			4,53,150
IV. Expenses:			
(a) Cost of material consumed	6	3,58,700	
(b) Employees cost/ benefits expenses	7	30,200	
(c) Depreciation & amortization expenses		13,785	
(d) Other expenses	8	38,690	
Total Expenses			4,41,375
V. Profit for the year (III-IV)			11,775
Balance brought forward from previous year			6,220
Profit available for appropriation			17,995
Appropriation:			
Transfer to General Reserve			4,000
Balance carried forward			13,995

Notes:

1. Share Capital:	₹
Issued, Subscribed & Paid up	2,50,000
Less: Calls in arrears	5,000
	2,45,000
2.Reserves & Surplus:	
General Reserve	29,000
Surplus (P & L A/c)	13,995
	42,995
3. Long Term Borrowings:	
Unsecured:	
Loan from Managing Director	15.700
	15,700
4. Other Current Liabilities:	
Outstanding Expenses	7,000
Salesmen Commission	4,500
	11,500

5. Tangible Fixed Assets:

Item	Closing Balance (₹)	Depreciation (₹)	Net (₹)
Plant & Machinery	80,500	12,075	68,425
Furniture	17,100	1,710	15,390
Total	97,600	13,785	83,815

6. Cost of materials consumed:	₹
Opening stock	50,000
Purchases	3,25,000
Less: Closing Stock	(91,500)
Wages	75.200
	3,58,700
7. Employees Benefit Expenses:	
Salary	19,700
Bonus	10,500
	30,200
8. Other Expenses:	
Administrative Expenses (5,040+6,600+8,950+2,400)	22,990
Provision for bad debts	3,200
Marketing Expenses (4,200+3,800+4,500)	12,500
	38,690

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

(a) Follow on public offer (FPO)

(b) Types of Cash Flow;

(c) Rebate on Bills Discounted;

(d) Business segment as per AS 17.

Answer:

(a) Follow on public offer (FPO)

An issuance of stock following a company's Initial Public Offer is called a Follow on Public Offer. A company opts for the FPO route when it wishes to raise additional capital from the shareholders and new investors. An FPO is essentially a stock issue of supplementary shares made by a company that is already publicly listed and has gone through the IPO process.

FPOs are popular methods for companies to raise additional equity capital in the capital markets through a stock issue. Public companies can also take advantage of an FPO issuing an offer for sale to investors, which is made through an offer document. FPOs should not be confused with IPOs, as IPOs are the initial public offering of equity to the public while FPOs are supplementary issues made after a company has been established on an exchange. FPO is when an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public, through an offer document. An offer for sale in such scenario is allowed only if it is made to satisfy listing or continuous listing obligations.

A follow-on offering (often but incorrectly called secondary offering) is an issuance of stock subsequent to the company's initial public offering. A follow-on offering can be either of two types (or a mixture of both): dilutive and non-dilutive. A secondary

offering is an offering of securities by a shareholder of the company (as opposed to the company itself, which is a primary offering). A follow on offering is preceded by release of prospectus similar to IPO: a Follow-on Public Offer (FPO).
For example, Google's initial public offering (IPO) included both a primary offering (issuance of Google stock by Google) and a secondary offering (sale of Google stock held by shareholders, including the founders).

(b) Types of Cash Flow;

Cash Flow Statement explains cash movements under three different heads, namely
1. Cash flow from operating activities;
2. Cash flow from investing activities;
3. 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 and other activities that are not investing and financing. 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.

(c) Rebate on Bills Discounted;

One of the major functions of a bank is to discount customers' bill. We know that when the bill is discounted by the bank Bill Discounted and Purchased Account should be debited with full amount and Customers' Current Account is credited for such discounting by the bank with net amount. In this way, total amount of discount so earned during this year is credited to Interest and Discount Account. Discount is calculated from the period of discounting the bill to the date of maturity of the bill. This is the usual transactions which are recorded in the books of bank for discounting of the bill. No problem will arise if the entire amount of discount is received during the period. In real world situation, this is not happened as the bill may not have matured for payment during the period of closing the accounts. Thus, an adjustment is required for discounting of those bills which are related to next accounting periods.

Entries For adjustment
Interest & Discount A/c Dr.
To Rebates on bill discount Account

Computation of rebates on Bills discounted

Rebate on Bills Discounted = Amount of Bill × Rate of Discount × (Unexpired period /12)

(d) Business segment as per AS 17.

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products or services are related include:

(a) the nature of the products or services;
(b) the nature of the production processes;
(c) the type or class of customers for the products or services;
(d) the methods used to distribute the products or provide the services; and
(e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities

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) A cost auditor submits his report to –
(A) Government
(B) Shareholders
(C) Statutory Auditor
(D) **Board of Directors**

(ii) Appointment of auditor for government company is done by
(A) BOD
(B) Audit committee
(C) Managing Director
(D) CAG

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

(vi) Each of the three parties involved in an audit ____________ play 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**

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

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

(vi) 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

(b) Match the following: **[4×1=4]**

	Column 'A'		Column 'B'
1.	**Statutory Audit**	**A.**	**Final Audit**
2.	**Annual Audit**	**B.**	**Audit programme**
3.	**Functional Classification of Audit**	**C.**	**Tax Audit**
4.	**Detailed of audit work to be performed**	**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.	Detailed of audit work to be performed	B	Audit programme

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

(i) **Joint auditors shall not be jointly and severally responsible in respect of undivided work.**
(ii) **An audit work reflects the work done by the management.**
(iii) **The concept of true and fair is a fundamental concept in auditing.**
(iv) **An auditor is not insurer.**

Answer:

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

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

7. (a) "Internal audit involves five areas of operations"—Discuss. **[5]**

Answer:

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.

(b) State the differences between Audit and Investigation. **[7]**

Answer:

It is to be noted that both Auditing and Investigation have a fact finding character. Both involve a systematic and critical examination of the available evidence, yet these are quiet distinct from each other as follows:

Sl No.	Basis	Audit	Investigation
(i)	Meaning	Auditing is an independent and systematic examination of the evidence underlying the accounting or other data in accordance with the generally accepted auditing practices to ascertain the true and fair view of the financial statements of an enterprise.	An investigation may be defined as an examination of accounts and records with a view to ascertain any fact for some special purpose which varies from assignment to assignment.
(ii)	Scope	The audit has a wide scope. In statutory audit, the scope is determined by the relevant law and in case of a private audit (e.g. management audit) by a client.	The scope of investigations, on the other hand, is limited as regards the period or areas to be covered.

(iii)	Objective	In audit, the accounts and records are verified as to their truth and fairness	Investigation is for special purpose (e.g. investigation on the behalf of incoming partner)
(iv)	Audit Procedure	The audit is conducted in accordance with the generally accepted auditing principle.	Investigations involve an extended auditing procedure.
(v)	Evidence	An auditor will evaluate the accounting records predominantly based on persuasive evidence.	An investigator can draw his conclusions only on the basis of substantial or sometimes conclusive evidence.
(vi)	Approach	Auditor is sceptical and not suspicious.	Whereas an investigator starts with suspicion and collects evidence to either confirm or dispel that suspicion.
(vii)	Periodicity	Auditing is a routine exercise (normally conducted annually).	Investigation may spread over a gap period longer than one year.

8. (a) Discuss the manner in which rotation of Auditors may be done by the company on expiry of their term. [7]

Answer:

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.

(b) Auditor not to Render Certain Services [Section 144] — discuss. [5]

Answer:

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 its holding company or subsidiary company, namely:

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.

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.

9. (a) Discuss — Cost Audit Report. [5]

Answer:

As per sub-rule (4) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 as amended, a Cost Auditor is required to submit the Cost Audit Report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3 to Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates.

Form for filing Cost Audit Report with the Central Government

As per sub-rule (6) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 as amended, every company to whom cost auditor submits his or its report shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in form CRA-4 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014. It is to be noted that the cost audit report is required to be filed in XBRL format.

(b) List the main contents of an Audit Certificate. [7]

Answer:

The certificate should include the following: —

i. Auditor should see that there is a suitable declaration by the management about the subject matter.
ii. Auditor should give the certificate on his letter head or on stationary carrying his name and address to avoid misunderstanding.
iii. Auditor should clearly state his limitations and indicate the extent to which he has relied upon a technical expert if any.
iv. Auditor should indicate the specific record covered by the certificate.
v. Auditor should mention the manner in which the audit was conducted.
vi. Auditor should indicate in the certificate if he has made certain fundamental assumptions. Auditor should make a reference to the information and explanations obtained. Auditor should give clear title to it, indicating whether it is a report or a certificate.
vii. Auditor should mention whether he has used any general purpose statement like Profit & Loss Account for his investigation and also, state whether that general purpose statement has been audited by other auditors.
viii. Auditor should be careful while interpreting any law related matter, he should clearly mention that he is expressing merely his own opinion.
ix. Auditor should see that the certificate should be self contained documents. Auditor should clearly mention the responsibility assumed by him.
x. Auditor should, if he has referred the audited statements, clearly mention that the figures are used from the audited statements and relied upon.
xi. Auditor should address the certificate to the client or the Public Authority or the person requiring it as the case may be. In appropriate circumstances it may be issued by using the words as "to whom so ever it may concern".

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

(a) Benefits of Joint Audit;

(b) Audit of Municipalities and Panchayats;

(c) Audit of Re-issue of forfeited shares;

(d) Auditing and Assurance Standards Relating to Audit of Fixed Assets.

Answer:

(a) Benefits of Joint Audit:

Benefits of Joint Audit are

(i) Lower workload: In large organizations where auditing is a mammoth task, the work-load gets divided among all the auditors and hence reduce.
(ii) Timely completion of work: Huge auditing work can be completed on timely basis which is divided among joint auditors.
(iii) Sharing of expertise: Expertise of different auditors gets shared if there are several auditors.
(iv) Improved quality of services: Since specific auditors concentrate on their specialised areas of operation, hence improving quality of services.
(v) Healthy competition: Healthy competition increases efficiency and productivity.
(vi) Quality of performance: Quality of performance increases with healthy competition and sharing of knowledge.

(b) The major objective of audit of Municipalities and Panchayats are enumerated below;

(i) To ensure on the fairness and correctness of contents in the Financial Statement

(ii) To report on adequacy of Internal control
(iii) To ensure value of money is fully received on amount spent.
(iv) To detect the frauds and errors.

The following points are to be considered necessary for carrying on audit of Municipalities and panchayats (Local Bodies);

(i) To ensure that the expediters incurred conform to the relevant provision of the law and is in accordance with the financial Rules and regulation formed by the compliant authority.
(ii) To encase that sanction is accorded by the competent authority either special or general.
(iii) To encase that there is provision of funds for expenditure and is authorized by competent Authority.
(iv) To ensure that where huge financial expenditure is made is run economically and is expected to contribute growth.

(c) 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.

(d) Auditing and Assurance Standards Relating to Audit of Fixed Assets:

1. The term Property, plant and equipment in respect of those entities which are required to comply with the relevant Revised AS refers to such tangible items that:
   (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
   (b) are expected to be used during more than one period.

2. An asset can be classified as a Property, Plant, Equipment (PPE) or otherwise, depending upon the use to which it is put or intended to be put. For example, assets which are classified as PPE in one type of business may be considered as current assets in another. Similarly, the same asset may be classified differently in an entity at different points of time. The recognition of Property, Plant and Equipment should be done as per the principles laid down in the “relevant applicable AS”.

Audit:

(1) Auditor should review internal controls over acquisition like authorisation, capital budgeting etc.
(2) Physical verification of Fixed Assets
(3) Check whether proper records are maintained
(4) Check whether proper depreciation of Fixed Assets is done
(5) Check supporting documents of acquisition disposal
(6) Check qhether scrapping retirement of Fixed Assets is properly authorised.
(7) Check whether sale proceeds of FA are propely accounted
(8) Check title needs of ownership of Fixed Assets