INTERMEDIATE EXAMINATION

GROUP II

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2016

Paper-12 : COMPANY ACCOUNTS AND AUDIT

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

SECTION – A

Answer all the following questions.

1. Answer the following questions: 2×5=10

(a) ROLTA Ltd. reports the following information regarding Pension Plan Assets:

Particulars	Amount (₹)
Fair market value of Pension Plan assets as on 01.04.2015	6,00,000
Fair market value of Pension Plan assets as on 31.03.2016	9,00,000
Actual Return	1,95,000
Benefit payments of Retirees	1,50,000

Calculate the Employer's Contribution to the Pension Plan assets during the year 2015-16 as per AS-15.

(b) FINEX Ltd. had 500000 equity shares (₹ 10 each) outstanding on 01.04.2015. The average fair value per share during the year 2015-16 was ₹ 80. The company has given share option to its Employees of 100000 shares at option price of ₹ 60. The net profit attributable to the equity shareholders for the year ended March 31, 2016 was ₹ 12 Lakh.
Calculate Diluted Earnings per share.

(c) The following information relate to ZOOM Ltd.
Imported Raw materials on 25.02.2015 for US $ 10,000;
Exchange Rate on 25.02.2015 ₹ 60 per US $;
Exchange Rate on 31.03.2015 ₹ 60.50 per US $;

Date of Actual payment for import: 15.06.2015;
Exchange Rate on 15.06.2015 ₹ 61 per US $;
Calculate the (Loss) / Gain for the financial year 2015-16 (as per AS-11).

(d) PROMET LTD. follows a policy of refunding money to the dissatisfied customers if they claim within 15 days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.2% of the customers claims refunds.
The company sold goods amounting to ₹ 30 Lakh during the March, 2016.
State how the matter will have to dealt with in the accounts for the year 2015-16.

(e) ATIMA LTD. purchased a fixed asset for ₹ 45 Lakh on 05.04.2015. The company received a grant from the Government of West Bengal during the year amounting to ₹ 18 Lakh.
Show the accounting treatment of the above if it is non-depreciable asset as per AS-12.

Answer:

(a) Employer's contribution to plan assets during the year 2015-16:
Fair value of plan assets (end of year) - Fair value of plan assets (beginning of year) + benefit payments - Actual return of plan.
= (9,00,000 - 6,00,000 + 1,50,000 – 1,95,000) = ₹ 2,55,000

(b) Number of Incremental shares issued for no consideration:
[1,00,000 × (80 - 60)] ÷ 80 = 25,000
Weighted number of Equity shares = 500000 + 25000 = 525000
Diluted EPS = (1200000 ÷ 525000) = ₹ 2.29

(c) As per AS-11 outstanding liability for creditors as on 31.03.2015 will be reported (10000 x 60.50)= ₹ 6,05,000.
Hence (loss) /Gain for the year 2015-16 will be 10000 × (61 - 60.50) = (₹ 5,000)

(d) There is a probable present obligation as a result of past obligating event. The obligating event is the sale of product. Provision should be recognized as per AS-29.
So, a provision of ₹ 6,000 (₹ 30 lakh × 0.2%) should be provided in the financial accounts for the year 2015-16.

(e) As per AS-12 accounting for Government Grants related to non-depreciable assets should be credited to Capital Reserve.

Accounting entries:
(i) On purchase of Fixed Asset

		(₹ in Lakh)	
Fixed Asset A/c	Dr.	45.00	
To Bank A/c			45.00

(ii) On receipt of Government Grant

		(₹ in Lakh)	
Bank A/c	Dr.	18.00	
To Capital Reserve / Fixed Assets A/c			18.00

2. Match the following items in Column 'A' with items shown in Column 'B': 1×5=5

	Column 'A'		**Column 'B'**
1.	**All costs associated with amalgamation are capitalised**	**a.**	**AS-26**
2.	**Accounting treatment of foreign currency transactions**	**b.**	**Purchase Method**
3.	**Guidance on internally generated computer software**	**c.**	**AS-20**
4.	**Provision for Restructuring cost**	**d.**	**AS-11**
5.	**Diluted Potential equity share**	**e.**	**AS-29**

Answer:

	Column 'A'		Column 'B'
1.	All costs associated with amalgamation are capitalised	b.	Purchase Method
2.	Accounting treatment of foreign currency transactions	d.	AS-11
3.	Guidance on internally generated computer software	a.	AS-26
4.	Provision for Restructuring cost	e.	AS-29
5.	Diluted Potential equity share	c.	AS-20

3. Answer any two questions: 5×2=10

(a) What are the advantages of Social Audit?

(b) State objectives of Management Audit.

(c) What are the contents of a typical Audit Note Book?

(d) As an auditor of a company your advice is sought on the following issue:
"No provision for income tax is proposed to be made in respect of the profits of the year as the company expected refund of taxes paid in the earlier year."

(e) Comment on the following in relation to SA 230:
"Audit documentation serves a number of additional purposes."

Answer:

(a) The advantages of Social Audit may be enumerated as below:

(i) Encourages community participation among different business entities.

(ii) Ensures continuous efforts towards environmental protection and use of environment friendly production processes.

(iii) Builds customer satisfaction and trust through ethical business practices.

(iv) Promotes collective decision making and sharing responsibilities.

(v) Develops human resources by working towards improvement of workers' and the underprivileged persons' working / living conditions.

(b) The objectives of management audit are:

(i) To detect and correct the human limitations of top management;
(ii) To improve upon management's productivity;
(iii) To avoid possible losses arising from inefficient management and
(iv) To study the current state of all affairs of the management and suggest suitable measures for improvement.

(c) The contents of a typical audit note book may be enumerated as below:

(i) Name of the business enterprise.
(ii) Organization structure.
(iii) Important provisions of Memorandum and Articles of Association.
(iv) Communication with the previous auditor, if any.
(iii) Management representations and instructions.
(vi) List of books of accounts maintained by the enterprise.
(iv) Accounting methods, internal control systems followed by the enterprise, applicable laws etc.
(viii) Key management personnel.
(ix) Errors and fraud discovered.
(x) Matters requiring explanations or clarifications.
(xi) Special points that need attention in the audit report and for subsequent audits.

(d) Expectation of income is not equivalent to realization of income. The realization concept of accounting states that expected income should be treated as income only after it has realized. In the present case, the company has not yet received any income hence it is totally imprudent to assume that such income has realized. The refund may or may not come. The provision for income tax should be made irrespective of the refund expected.

(e) Audit Documentation:

According to SA 230 on "Audit Documentation", audit documents once collected serve a number of additional purposes. These purposes are as follows:

- Enabling the conduct of quality control reviews and inspections.
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory, or other requirements.
- Enabling the engagement team to be accountable for its work.
- Retaining a record of matters of continuing significance to future audits.
- Assisting the engagement team to plan and perform the audit.
- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work and to discharge their review responsibilities in accordance with SA 220 "Quality Control for an Audit of Financial Statement."

SECTION - B

Answer any three questions from Q. No. 4, 5, 6 and 7.

15×3=45

4. (a) Following are the Balance Sheets of STE Ltd. and BTE Ltd. as at 31st March, 2016.

Liabilities	STE Ltd. (₹ in lakh)	BTE Ltd. (₹ in lakh)	Assets	STE Ltd. (₹ in lakh)	BTE Ltd. (₹ in lakh)
Equity Share Capital (fully paid share of ₹10 each)	7,500	3,000	Land & Buildings	3,000	
Securities Premium	1,500	—	Plant & Machinery	7,000	2,500
General Reserve	4,750	1,755	Furniture & Fixtures	1,152	850
Profit and Loss A/c	1,435	413	Stock	3,931	2,021
12% Debentures	—	500	Debtors	1,060	510
Bills Payable	60	__	Cash at Bank	557	304
Sundry Creditors	540	231	Bills Receivable	__	40
Sundry Provisions	915	351	Cost of issue of Debentures	—	25
	16,700	6,250		16,700	6,250

On 1st April, 2016 STE Ltd. took over BTE Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business STE Ltd. would allot 3 fully paid equity shares of ₹ 10 each at par for every 2 shares held in BTE Ltd. It was also agreed that 12% Debentures in BTE Ltd. would be converted to 13% Debentures in STE Ltd. of the same amount. All the bills receivable held by BTE Ltd. were STE Ltd.'s acceptances. Amalgamation expenses ₹ 50,000 were born by STE Ltd.

You are required to pass necessary journal entries in the books of STE Ltd. **9**

(b) You are provided with the following details:

	Amount (₹)
Net Profit before provision for income tax and managerial remuneration, but after depreciation and provision for repairs	4,35,205
Depreciation provided in the books	1,55,000
Provision for repairs of office premises during the year	12,500
Depreciation allowable under schedule II	1,30,000
Actual expenditure incurred on repairs during the year	7,500

From the above particulars you are required to calculate the managerial remuneration in the following situation:

(i) There is only one Whole time Director;

(ii) There are two Whole time Directors;

(iii) There are two Whole time Directors, a part time Director and a Manager; 6

Answer:

(a)

In the Books of STE Ltd.

(₹ In Lakh)

Particulars	Dr.	Cr.
Business Purchase A/c Dr.	4,500	
To Liquidator of BTE Ltd. A/c		4,500
(Being business of BTE Ltd. taken over for consideration settled as per agreement)		
Plant & Machinery A/c Dr.	2,500	
Furniture & Fittings A/c Dr.	850	
Stock A/c Dr.	2,021	
Debtors A/c Dr.	510	
Cash at Bank A/c Dr.	304	
Bills Receivable A/c Dr.	40	
To General Reserve (1755-1500)A/c		255
To Profit & Loss A/c (413-25)		388
To 12% Debentures A/c		500
To Sundry Creditors A/c		231
To Sundry Provision A/c		351
To Business Purchase A/c		4,500
(Being Assets & Liabilities taken over from BTE Ltd.)		
Liquidator of BTE Ltd. A/c Dr.	4,500	
To Equity Share Capital A/c		4,500
(Being Purchase Consideration discharged in the form of equity shares)		
General Reserve A/c Dr.	0.50	
To Bank A/c		0.50
(Being liquidation expenses paid by STE Ltd.)		
12% Debentures A/c Dr.	500	
To 13% Debentures A/c		500
(Being 12% Debentures discharged by Issue of 13% Debentures A/c)		
Bills Payable A/c Dr.	40	
To Bills Receivable A/c		40
(Being conciliation of mutual owing on account of bills)		

Working Note:

Computation of Purchase Consideration:

Shares allotted by STE Ltd. = [₹3,000 Lakhs / 2]× 3 = ₹4,500 lakhs

(b) Section 197 of the Companies Act, 2013 prescribe the maximum percentage of profit that can be paid as managerial remuneration. For this purpose, profit is to be calculated in the manner a specified in section 198.

Calculation of net profit U/S 198 of the Companies Act, 2013

Particulars	Amount (₹)	Amount (₹)
Net profit before provision for income tax and managerial remuneration, but after depreciation and for provision for repairs		435205
Add back: Depreciation provided in the books	1,55,000	
Provision for repairs of office premises	12,500	1,67,500
		6,02,705
Less: Depreciation allowable under schedule II	1,30,000	
Actual expenditure incurred on repairs	7,500	1,37,500
Profit under section 198		4,65,205

Calculation of managerial remuneration:

(i) There is one whole time Director:
Managerial remuneration = 5% of ₹ 4,65,205 = ₹ 23,260.25

(ii) There are two whole time Directors :
Managerial remuneration = 10% of ₹ 4,65,205 = ₹ 46,520.50

(iii) There are two whole time directors, a part time director and a manager: Managerial remuneration =11% of ₹ 4,65,205= ₹ 51,172.55.

5. (a) EVVM INDIA LTD. has the following balances as on 1st April, 2015:

	Amount (₹)
Fixed Assets	**5,70,000**
Less; Depreciation	**1,99,500**
	3,70,500
Stocks and Debtors	**2,37,500**
Bank Balance	**33,250**
Creditors	**57,000**
Bills Payable	**38,000**
Capital (Shares of ₹ 100 each)	**2,85,000**

The company made the following estimates for financial year 2015-16:

(i) The company will pay a free of tax dividend of 10% the rate of tax being 25%.

(ii) The company will acquire fixed assets costing ₹ 95,000 after selling one machine for ₹ 19,000 costing ₹ 47,500 and on which depreciation provided amounted to ₹ 33,250.

(iii) Stocks and Debtors, Creditors and Bills payables at the end of financial year are expected to be ₹ 2,80,250, ₹ 74,100 and ₹ 49,400 respectively.

(iv) The profit would be ₹ 52,250 after depreciation of ₹ 57,000.

Prepare the projected cash flow statement and ascertain the bank balance of EVVM

INDIA LTD. at the end of financial year 2015-16. **9**

(b) When Underwriting Commission is payable as per Companies Act, 2013? **6**

Answer:

(a) Working Notes:

Particulars	₹
Cash Flow from operations	
Profit for the year	52,250
Add: Depreciation (non cash item)	57,000
	1,09,250
Less: Profit on sale of machine	4,750
	1,04,500
Add increase in:	
Creditors (₹ 74,100 – ₹ 57,000) = ₹ 17,100	
Bills payable (₹ 49,400 – ₹ 38,000) = ₹ 11,400	28,500
	1,33,000
Less : Increase in stocks & debtors (₹ 2,80,250 – ₹ 2,37,500)	42,750
Cash from operations	90,250
Payment of Dividend	
10% on capital ₹ 2,85,000 = ₹ 28,500	
Gross up Amount	
Total Dividend ₹ 8,000	
Tax 25% ₹ 9,500	
Payment of Dividend ₹ 28,500	

Note: Income Tax on Company's Profit Ignored

Projected Cash Flow Statement

for the Year ending on 31st March, 2016

	₹	₹
Bank Balance as on 1st April, 2015		33,250
Add: Inflow of Cash		
Sale of Machine	19,000	
Cash From operation	90.250	1,09,250
Less: Outflow of Cash		
Purchase of Fixed Assets	95,000	
Payment of Dividend	28,500	
Tax Paid	9.500	1,33,000
Bank Balance on 31st March, 2016		9,500

(b) It may be paid in cash or in fully paid-up shares or debentures or a combination of all these. It is paid on the issue price of the shares or debentures so underwritten. As per the provision of Section 40 of the Companies Act, 2013, commission is payable if the following conditions are satisfied:

(i) The payment of the commission is authorized by the articles;

(ii) The commission paid or agreed to be paid does not exceed in the case of shares, five per cent of the price at which the shares are issued or the amount or rate authorized by the articles, whichever is less, and in the case of debentures, two and a half per cent of the price at which the debentures are issued or the amount or rate authorized by the articles, whichever is less;

(iii) The amount or rate per cent of the commission paid or agreed to be paid is in the case of shares or debentures offered to the public for subscription, disclosed in the prospectus, and in the case of shares or debentures not offered to the public for subscription, disclosed in the statement in lieu of prospectus, or in a statement in the prescribed form signed in like manner as a statement in lieu of prospectus and filled in before the payment of the commission with the Registrar and, where a circular or notices not being a prospectus inviting subscription for the shares or debentures, is issued, also disclosed in that circular or notice:

(iv) The number of shares or debentures which persons have agreed for a commission to subscribe absolutely or conditionally is disclosed in the manner aforesaid; and

(v) A copy 'If the contract for the payment of the commission is delivered to the Registrar at the time of delivery of the prospectus or the statement in lieu of prospectus for registration.

6. (a) ACE Ltd. went into voluntary liquidation on 31st March, 2015.

From the following information, you are required to prepare liquidator's final Statement of Account: 10

	Particulars	Amount (₹)
(i)	**Cash with liquidators (after all assets are realized and secured creditors and debenture holders are paid)**	**22,50,000**
(ii)	**Preferential creditors to be paid**	**1,05,000**
(iii)	**Other unsecured creditors**	**6,90,000**
(iv)	**15000,10% preference shares of ₹ 100 each fully paid**	
(v)	**9000 equity shares of ₹ 100 each, ₹ 75 per shares paid up**	
(vi)	**21000 equity shares of ₹ 100 each, ₹ 60 per shares paid up**	
(vii)	**Liquidator's remuneration is 2% on payments of preferential and other unsecured creditors.**	

(b) Explain what are the sources for payment of Dividend. 5

Answer:

(a)

Liquidator's Final Statement of Account

Dr. Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Cash in Hand	22,50,000	By Liquidator's remuneration [2% on 7,95,000(1,05,000+6,90,000)]	15,900
To Cash/bank (Amount received 21,000 equity shares @ ₹ 6.53 per share)	1,37,130	By Preferential creditors	1,05,000
		By Unsecured creditors	6,90,000
		By Preference shareholders	15,00,000
		By Equity shareholders (Amount paid to holders of 9,000 equity shares @ ₹ 8.47 per share)	76,230
	23,87,130		23,87,130

Workings:

Calculation of amount receivable from equity shareholders or payable to equity shareholders

Particulars	**Amount (₹)**	**Amount (₹)**
Cash in hand (Assets realized)		22,50,000
Less:		
Payment made:		
Liquidator's remuneration	15,900	
Preference Creditors	1,05,000	
Unsecured creditors	6,90,000	
Preference shareholders	15,00,000	23,10,900
		60,900
Add: Amount payable to equity shareholders (paid up); 9000 equity shares @100 each, ₹ 75 paid up	6,75,000	
21,000 equity shares @100 each, ₹ 60 paid up	12,60,000	
		19,35,000
Total loss to be borne by equity shareholders		19,95,900

No. of equity shares: 30000 shares

Loss per equity shares = 19,95,900/30,000 = ₹ 66.53

Amount receivable from 21,000 equity shareholders = 21,000×6.53 (i.e. 66.53-60)

= ₹ 1,37,130

Amount payable to 9,000 equity shareholders = 9,000× 8.47 (75-66.53) = ₹ 76,230

(b) No dividend shall be declared or paid by a company for any financial year except — out of the profits of the company for that year arrived at after providing for depreciation, or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation.

Source for payment of Dividend:

Section 123 permits payment of Dividend out of following sources only:

- Profit for the year for which dividend is to be paid.
- Undistributed or accumulated profits of previous financial years.
- Money provided by Central Government or State Government for the payment of dividends in pursuance of a guarantee given by that Government.

7. (a) APC Ltd. has 12% redeemable preference share capital of ₹ 1,00,000 consisting shares of ₹ 100 each fully called and paid-up. The company wants to redeem them at 10% premium.

The ledger accounts show the following balances:

Securities Premium A/c: ₹ 4,000

Profit & Loss A/c: ₹ 20,000

The company wants to make a minimum fresh issue of equity shares of ₹ 10 each at 5% premium for redemption of the preference shares.

You are required to:

(i) Ascertain the amount of fresh issue to be made by the company;

(ii) Pass necessary journal entries regarding redemption of the preference shares and fresh issue. 10

(b) State the circumstances under which a liquidator would have to made a call on partly-paid shares (B List of Contributories). 5

Answer:

(a) Calculation showing number of equity shares to be issued —

Total Liability = Preference Share Capital to be redeemed
= Profit and Loss Account balance + Securities Premium + Proceeds of fresh issue

Let, Numbers equity shares to be issued be X

∴ ₹1,10,000 = ₹4,000 +₹ 20,000 + [1.05 X × ₹10]

Or, ₹10.5 X = ₹(1,10,000 – 4,000 – 20,000)

Or, X = ₹86,000 / ₹10.5

Or, X = 8,190

Hence, amount of fresh issue —
No. of shares to be issued 8,190

Equity Share Capital = 8,190 × ₹10	=	₹81,900
Securities Premium [₹10 × 5%]× 8,190	=	₹4,095
		₹85,995

APC Ltd.
Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
Bank A/c	Dr.	85,995	
To Equity Share Capital A/c			81,900
To Securities Premium A/c			4,095
(8190 equity shares of ₹10 each at a premium of 5%)			
Securities Premium A/c	Dr.	8,095	
Profit & Loss A/c		1,905	
To Premium on Redemption of Preference Shares A/c			10,000
(Premium provided for redemption)			
Profit & Loss A/c	Dr.	18,100	
To Capital Redemption Reserve A/c			18,100
(Amount transferred to capital redemption reserve not covered by fresh issue)			
12% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	10,000	
To Preference Shareholders A/c			1,10,000
(Redemption of preference shares made)			
Preference Shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Payment made)			

(b) 'B list Contributories':

The shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, before the date of winding up may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to pay off such creditors as existed on the date of transfer of shares. Their liability will become definite only:

- When the existing assets available with the liquidator are not sufficient to cover the liabilities.
- When the existing shareholders fail to pay the amount due on the shares to the liquidator.

SECTION - C

(Answer any two questions from Q. No. 8, 9 and 10)

15×2=30

8. (a) What aspects are required to be examined by the auditor in conducting audit of Buy-back of shares by the company? 7

(b) How will you vouch/verify the following and what are the related aspects to be looked into?

(i) Customs Duty; 4

(ii) Excise Duty; 4

Answer:

(a) Following areas are required to be examined by the auditor in conducting audit of Buy-back of shares by the company:

- Confirm that Buy-Back was authorized by articles.
- Verify the minutes of the Board meeting and special resolution passed in the general meeting in which the approval of members is obtained.
- Where the buy-back has been authorised by the Board by means of a resolution passed at its meeting then check that the buy-back is not more than ten per cent, or less of the total paid-up equity capital and free reserves of the company.
- Check that the no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.
- To check that the buy-back shall not be more than twenty-five per cent, of the aggregate of paid-up capital and free reserves of the company. In case of buy-back of equity shares in any financial year, the reference to twenty-five per cent, in this clause shall be construed with respect to its total paid-up equity capital in that financial year.
- To check that the ratio of the aggregate of secured and unsecured debts owed by the company after buy-back is not more than twice the paid-up capital and its free reserves.
- To check that all the shares or other specified securities for buy-back should be fully paid-up.
- To check whether the buy-back is made as per SEBI regulations in case of buy-back of the shares or other specified securities listed on any recognized stock exchange.
- To check that no offer of buy-back under this sub-section shall be made within a period of one year reckoned from the date of the closure of the preceding offer of buy-back.
- To ensure that buy-back shall be completed within a period of one year from the date of passing of the special resolution, or as the case may be, the resolution passed by the Board under clause (b) of subsection (2).
- Ensure that the buy-back has been done only out of the company's free reserves or

its securities premium account or out of the proceeds of any shares or other specified securities other than out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

- Ascertain that declaration of solvency was filed with the SEBI and/or the Registrar of Companies before making buy-back but subsequent the passing of the special resolution.
- To ensure that company shall extinguish and physically destroy the shares or securities so bought back within seven days of the last date of completion of buy-back.
- To ensure that the company shall not make a further issue of the same kind of shares or other securities including allotment of new shares or other specified securities within a period of six months except by way of a bonus issue.
- Whether the company has maintained any register of the shares or securities so bought.
- Check whether that the after the completion of the buy-back under this section the company file with the Registrar and the Securities and Exchange Board a return containing such particulars relating to the buy-back within thirty days of such completion.

(b) (i) Custom Duty

- Check the bills of clearing agents duly supported by receipted Bills of Entry, where the custom duty has been paid by the Custom Agents. If a payment has been made directly, the Bill of Entry relevant thereto together with the receipt should be inspected.
- In the event of dispute where a provisional payment has been made, the amount determined as payable finally should be ascertained and any additional duty payable or refund of the amount paid in excess which is recoverable should be brought into account.
- In certain cases, drawback of customs duty is allowed if goods (imported or containing imported materials) are exported. The auditor should see that on export the refund of duty has been claimed.

(ii) Excise Duty

Excise duty is a levy on manufacture. The liability for the duty arises at the point of time at which manufacture is completed. The point of time at which duty is collected may be determined by consideration of administrative convenience. Normally, excise duty is paid before the issue of excisable goods from the factory. The amount thereof is deposited with the State Bank or any other bank notified by the excise authorities, to the credit of the Controller of Excise and the duplicate copy of the challan is forwarded to him for obtaining the permit.

The following points should be considered to verify such payments:

1. The amount of duty paid must be checked with quantity of goods in respect of which the issue permits for the goods have been received.

2. Check the triplicate copy of the TR-6/GAR 7 challan, if available in the file in respect of such payments. It will serve as an additional evidence of the duty having been paid.
3. Certain entities maintain a current account with the excise authorities. In such a case, permits are issued in advance and duty is paid according to the quantity of excisable goods issued during each month or a shorter period.

9. (a) "Some material mis-statements remain unreported by Auditors."—Comment. 8

(b) Explain the requirement of cost audit in brief. 7

Answer:

(a) The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in the light of surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole.

Risk of material misstatement - The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

(i) Inherent risk - The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(ii) Control risk- The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

(b) Cost Audit: Cost Audit represents the verification of cost accounts and check on the adherence to cost accounting plan. Cost Audit ascertains the accuracy of cost accounting records to ensure that they are in conformity with Cost Accounting principles, plans, procedures and objective. Cost Audit comprise of verification of the cost accounting records such as the accuracy of the cost accounts, cost reports, cost statements, cost data and costing technique and examination of these records to ensure that they adhere to the cost accounting principles, plans, procedures and objective. Cost Audit is also a form of statutory audit. As per section 148, of Companies Act, 2013 the Central Government, may direct specified companies to have its records cost audited.

Cost Audit will prove to be useful to the management, society, shareholders and the Government.

- **Usefulness to the Management:**
  - (i) The management will get reliable data for its day-to-day operations like price fixing, control, decision making, etc.
  - (ii) A close and continuous check an all wastages will be kept through a proper system of reporting to management.
  - (iii) Inefficiencies in the working of the company will be brought to light to facilitate corrective action.
  - (iv) Management by exception becomes possible through allocation of responsibilities to individual managers.
  - (v) System of budgetary control and standard costing will be greatly facilitated.
  - (vi) Reliable check on valuation of closing stock and work-in-progress can be established.,
  - (vii) Helps in detection of frauds and errors.

- **Usefulness to the Society:**
  - (i) Cost audit is often introduced for the purpose of fixation of price. The prices so fixed are based on the correct costing data and so the consumers are saved from exploitation.
  - (ii) Price increase by the industry is not allowed without proper justification as to increase in cost of production; consumers are saved from unreasonable price.
  - (iii) Cost Audit is also useful for the purpose of Cost Control; Cost reduction and proper utilisation of scarce resources.

- **Usefulness to Shareholders:**

  Cost Audit ensures that proper records are kept as to purchases and utilisation of material and expenses incurred on wages, etc. It also makes sure that the valuation of closing stock and work-in-progress is on a fair basis. Thus, the shareholders are assured of a fair return on their investment.

- **Usefulness to the Government:**
  - (i) Where the government enters into a cost plus contract, cost audit helps the government to fix the price of the contract.
  - (ii) Cost audit helps the fixation of selling prices of essential commodities and thus, undue profiteering is checked.

(iii) Cost audit enables the government to focus its attention on inefficient units.
(iv) Cost audit enables the government to decide in favour of giving protection to certain industries.
(v) Cost audit facilitates settlement of Trade Dispute.
(vi) Cost Audit promotes healthy competition among units in the industry.

10. (a) Why and how is Internal Audit necessary to the Management? 8
(b) Distinguish between Audit Report and Audit Certificate. 7

Answer:

(a) The need for internal audit has increased in demand due to the following reasons:
(i) Increased size and complexity of businesses.
(ii) Enhanced compliance requirements.
(iii) Focus on risk management and internal controls to manage them.
(iv) Unconventional business models.
(v) Intensive use of information technology.
(vi) Stringent norms mandated by regulators to protect investors.
(vii) An increasingly competitive environment.

Internal audit has become an important management tool for the following reasons:
(i) Internal audit ensures compliance of Companies (Auditors Report) Order, 2015.
(ii) It ensures compliance of accounting standards and policies.
(iii) It ensures reliability of MIS through internal audit's independent appraisal and review.
(iv) It looks into the standard of efficiency of business operation.
(v) It can evaluate various problems independently and suggest improvement.
(vi) This system makes the internal control system effective.
(vii) It ensures the adequacy, reliability, accuracy and understandability of financial and operational data.
(viii) It performs as an integral part of 'Management by System'.
(ix) It can add valuable assistance to management in acquiring new business, promoting new products and expansion or diversification of business etc.

(b) Difference between Audit Report and Audit Certificate:
(i) **Meaning:** Audit Report is a statement of collected and considered information so as to give a clear picture of the state of affairs of the business to the persons who are not in possession of the full facts. While Audit Certificate is a written confirmation of the accuracy of the information stated there in.
(ii) **Opinion:** Audit Report contains the opinion of the auditor on the accounts, while Audit Certificate does not contain any opinion but only confirms the accuracy of the figures with the books of accounts.
(iii) **Basis:** Audit Report is made out on the basis of information obtained & books of account verified by the auditor, while Audit Certificate is made out on the basis of

the particular data capable of verification as regards accuracy.

(iv) **Guarantee:** Audit Report may not guarantee correctness of financial statement in absolute terms, while Audit Certificate guarantees absolute correctness of the figures & information mentioned in the certificate.

(v) **Coverage:** Audit Report always covers entire accounts of the concern, while Audit Certificate covers only certain part of the accounts of the concern.

(vi) **Responsibility:** Audit Report does not hold auditor responsible for anything wrong in the accounts, while Audit Certificate makes an auditor responsible if anything mentioned in the certificate found as wrong later on.

(vii) **Suggestion:** Audit Report may provide certain suggestions for improvement while Audit certificate does not provide any such suggestion.

(viii) **Nature:** Audit Report is based on the vouching & verification of books of accounts, voucher, assets & liabilities, while Audit Certificate is based on checking arithmetical accuracy of the facts.

(ix) **Scope:** Audit Report covers all transactions done during the year, while the Audit Certificate is very specific.

(x) **Characteristics:** Audit Report is subjective as it is opinion oriented, while Audit certificate is objective as it is fact oriented.

(xi) **Form:** Audit Report is required to be presented in the prescribed format, while Audit Certificate, except in few cases, is not required to be presented in any standard format.

(xii) **Address:** Audit report is addressed to the members of the company at large or appointing authority, while Audit Certificate is addressed to particular person or sometimes may include the words like "To Whomsoever it may concern".

Audit report versus Audit certificate

(i) Audit report is an expression of opinion on the truth and fairness of the accounts.

(ii) Audit certificate is authentication of true and correctness of the data or fact certified.

(iii) The existence of opinion distinguishes a report from the certificate.

(iv) The example of audit report is report issued by statutory auditor of a company under Section 143 of the Companies Act, 2013.

(v) The example for audit certificate is certification of consumption of imported items to be submitted to the government department for obtaining some license etc.