

INTERMEDIATE EXAMINATION

GROUP I (SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS JUNE 2013

PAPER- 6 : COMMERCIAL AND INDUSTRIAL LAWS AND AUDITING

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.

- Please
- (i) Answer all bits of a question at one place.
 - (ii) Open a new page for answer to a new question.
 - (iii) Attempt the required number of questions only.

Answer Question No. 1 and Question No. 5 which are compulsory and attempt any two from the rest in Section-I and any two from the rest in Section-II.

SECTION - I (50 Marks) (Commercial and Industrial Laws)

1. Comment on the following based on legal provisions: (no marks for wrong reasons or justification) : [2×7]
- (a) Mr. A offers to buy Mr. B's house on certain terms. Acceptance was to be sent by 'B' within 6(six) weeks. B within one week sent a letter accepting the offer with an alteration of one term. A then withdrew his offer. B writes again within three weeks accepting the terms originally proposed by 'A'. Hence this is a valid contract.
 - (b) On expiry of stipulated period, the pledgee can sell the pledged goods to any person.
 - (c) Parties to a contract of sale can get the price of goods fixed by third parties.
 - (d) Mr. E joined as Supervisor on monthly salary of INR 3450 on 1st Feb 2013 and resigned on 28th Feb 2013. His employer paid Bonus @ 10% to all the eligible employees. Hence Mr. E is entitled to Bonus for the period of his service.
 - (e) Factories Act 1948 is applicable to all the factories wherein 50 or more workers are working.
 - (f) An aggrieved consumer is to file complaint within six months from the date on which the cause of action has arisen and the said time cannot be extended.
 - (g) Mr. 'A' purchased a Refrigerator from Mr. 'B' on "hire purchase agreement" expiring on 31.12.15. Mr. 'A' sold on 01.05.13 that Refrigerator to 'C' who purchased against adequate consideration. 'A' has right to give good title to Mr. C.

Answer:

1. (a) Acceptance must be absolute and unqualified. A counter proposal or offer, offering different terms amounts to counter proposal. Further if B subsequently changes his mind and wants to accept the terms originally offered by A, no contract would come into existence, since the original offer of A will be deemed to have lapsed. Further there is no binding on the part of A to keep his offer open for six weeks that itself would require a contract for which there will have to be separate consideration moving from B to A.

- (b) Pawnee/Pledgee cannot sell. Pawnee/Pledgee is to give notice to pawner indicating his intention to sell. Notice of sale is essential even where the agreement specially excludes it (Sec. 176). Hence, this is void and unenforceable.
- (c) True. Sec.9 provides that the price may be left to be fixed in manner agreed between the parties. Thus the parties to a contract may agree that price of goods will be fixed by a third party.
- (d) Sec.8 of payment of Bonus Act 1956 provides that an employee to be entitled for bonus in the accounting year should have worked in the establishment for not less than thirty days. Thus in view of above, Mr. E is not entitled to bonus as he has not worked for 30 days in the accounting year.
- (e) False. The factories Act, 1948 is applicable to factories where in ten or more workers are or were working on any day of the preceding twelve months and in which manufacturing process is being carried on with the aid of power or twenty or more workers without the aid of power.
- (f) False. Complaint shall be filed within two years from the date on which the cause of action has arisen. This date can be extended, provided complainant can satisfy with sufficient cause for not filing the complaint within the prescribed time.
- (g) Under Hire Purchase Agreement, the ownership passes to buyer only on payment of last installment. The hirer under hire purchase system, has no title to the refrigerator therefore Mr. A cannot give a good title to Mr. C. This is because Mr. C. does not get a better title than Mr. A had.
2. (a) **A patient in a lunatic asylum can also enter into a valid contract. State the position based on legal provision.** [2]
- (b) **Mr. Ashoke obtains two loans from Mr. Natobar. First loan INR 3000 guaranteed by Mr. Roy and second loan INR 5000. Ashoke send a cheque of INR 2000 to Mr. Natobar without indicating how this amount is to be appropriated. Mr. Natobar appropriated against loan of INR 5000 which was unsecured. Whether this apportionment was lawful?** [2]
- (c) **M/s. wholeseller agreed to supply 1000 Pcs. of Cotton Shirt to M/s. Retailer at INR 300 per shirt by 31.05.2013. On 01.02.2013 M/s. Wholeseller informs the Retailer that he is not willing to supply the shirt as the price of shirt increased to INR 350 each. Examine the right of M/s. Retailer.** [2]
- (d) (i) **A part time employee engaged on regular basis is eligible for Bonus under payment of Bonus Act 1965. Write only True or False.** [1]
- (ii) **Whether Gratuity under payment of Gratuity Act, 1972 is payable for the period of layoff under the Industrial Disputes Act 1947. Write only True or False.** [1]
- (iii) **Fill in the blanks:** [1×3]
- No adult worker shall be required to allow to work in a factory
- (1) for more than hours in any week.
- (2) for more than hours in any day.
- (3) the period of work of adult workers in a factory shall be so fixed that no period shall exceed hours.
- (e) **In every industrial establishment, following committees are required to be constituted:** [1×2]
- (i) Works committee
- (ii) Redressal grievance committee
- State the correct rule position.
- (f) **Mr. Konar failed to receive certain information in connection with his Provident Fund accumulation. He intends to take shelter under RTI Act 2005. Please advise the steps or procedure to be followed.** [3]

- (g) Mr. Malhotra sold 1000 kgs. of rice to Mr. Basu who delayed in taking the rice from Mr. Malhotra. In the meantime Mr. Malhotra sold those rice to Mr. Roy who took the delivery for value & without notice of prior sale. Hence Mr. Roy has no good title of ownership to goods—Comment. [2]

Answer:

2. (a) A person who is usually of unsound mind but occasionally of sound mind may make a contract when he is of sound mind (Sec. 12 of Indian contract Act.)

A patient in a lunatic asylum may a valid contract if he is of sound mind at intervals at the time of making the contract.

- (b) In the absence of any specific clear instruction by Mr. Ashoke, Mr. Natobar may apply this amount at his own discretion to any lawful debt actually due and payable, hence Mr. Natobar's action was lawful (Sec. 60)
Even this amount however cannot be applied to disputed debt (Sec. 60) it could be appropriated by Mr. Natubar to a debt which has become time barred.

- (c) On 01.02.2013 M/s Wholeseller indicated his unwillingness to supply cotton shirt @ 300/- per shirt although there is time up to 31.05.2013 for performance of the contract.
It is therefore called anticipating breach of contract. In such case M/s. Retailer can claim damages. The Wholeseller may treat the contract as subsisting and wait till the date of delivery or he may treat the contract as rescinded and claim damages for breach.

- (d) (i) This statement is true.
(ii) This statement is true.
(iii) (1) 48 hrs.
(2) 9 hrs.
(3) 5 hrs.

- (e) (i) **False:** Works committee is constituted in any industrial establishment in which 100 (one hundred) or more workmen are employed.
(ii) Every industrial establishment employing twenty or more workmen shall have one or more redressal grievance committee.

- (f) Mr. Konar may submit:
1. a request in writing in plain paper indicating the information he needed.
2. to the public information officer under Regional Provident Fund Commissioner.
3. with a fee of INR 10 which can be paid in cash or IPO or Demand Order.

- (g) Where Mr. Malhotra having sold goods continues in possession thereof or documents of title to the goods, the delivery by such seller i.e., Mr. Malhotra will pass a good title to Mr. Roy, since Mr. Roy acted on good faith and without notice of the previous sale by paying the value (Sec 30)

- Where however Mr. Malhotra keeps the goods as Mr. Basu's bailee, this section shall not apply (Sec. 30)
- In these circumstances Mr. Roy can sue Mr. Malhotra

3. (a) Write short notes on (any four) : [4×4]

- (i) Quasi contract
(ii) Damping (Sale of Goods Act)
(iii) Forfeiture (Gratuity Act 1972)
(iv) Annual Return (limited liability partnership)

(v) Discharge of contract

- (b) Mr. Sarkar filed an application with requisite fees (IPO) to the Public Information Officer (PIO) who returned the application and IPO stating that this application was not related to his department. Whether PIO's action justified? [2]

Answer:

3. (a) (i) Quasi-Contract are contracts where there is no contract or agreement between the parties, but they are put in the same position as if there were a contract between them. A quasi-contract rests on the ground of equity that a person shall not be allowed to enrich himself unjustly at the expense of another. Law of quasi-contract is also known as the law of restitution.

Section 68 to 72 of the Indian Contract Act, enumerate the instances under which quasi contract arise. These are (i) claim for necessities supplied to a person incapable of contracting or on his account. (2) Reimbursement of person paying money due by another in payment of which he is interested. (3) Obligations of persons enjoying benefit of non-gratuitous act. (4) Responsibilities of finder of goods (5) Liability of a person to whom money is paid or things delivered by mistake or under coercion.

- (ii) **Damping:**
Damping is an act to dissuade the intending buyer from bidding or from casing the price by pointing out defects in the goods or by doing some other acts which prevent persons from forming a fair estimate of the price of goods. Damping is illegal and the auctioneer can withdraw the goods from auction.

- (iii) **Forfeiture**
- Gratuity of any employee can be forfeited whose services have been terminated for any act, Willful omission or negligence causing damage or destruction to the property belonging to the employer.
 - It can be forfeited for any act which constitute an offence involving moral turpitude.
 - Where services have been terminated on any of the above grounds the employer cannot withheld gratuity due to the employee.
 - Where the land of employer is not vacated by the employee, gratuity cannot be withhold

- (iv) **Annual Return (Sec.35)**
Every limited liability partnership (LLP) shall file an annual return duly authenticated with the registrar within sixty days of closure of its financial year in such form and manner and accompanied by such fee as may be prescribed.

Any limited liability partnership which fails to comply with the provisions of this section shall be punishable with fine which shall not be less than INR twenty five thousand but which may extend to INR five lakhs.

If the LLP contravenes the provisions of this section, the designated partner of such LLP shall be punishable with fine which shall not be less than INR ten thousand but which may extend to INR one lakh.

(v) **Discharge of contract**

Discharge of contract implies termination of contractual relationships among parties. Discharge of contract means it ceases to operate and rights and obligations under it come to an end. Contract can be discharged by any of the following ways-

- (i) by performance
- (ii) by mutual consent
- (iii) by subsequent impossibility of performance
- (iv) by lapse of time
- (v) by operation of law
- (vi) by breach of contract.

(b) If the request for information pertains to another Public Authority in whole or part it is the responsibility of public information officer (PIO) to transfer / forward the concerned portions of the application/request to a PIO of the other Department / Public Authority within 5 days but he cannot return the application to the Applicant.

4. (a) Referring to a quarrel and disagreement between husband and wife, the husband agreed to execute and register a document in favour of his wife to transfer one of his properties to his wife. Later on husband refused. Whether wife can enforce? [3]

(b) X agrees to pay Y a sum of money if Y marries Z. Z however marries F, who died subsequently. After the death of F, Z marries Y. Whether X is legally bound to pay the agreed sum of money to Y? Comment. [2]

(c) Mr. Mitra guarantees payment to Mr. Basu to the extent of INR 50,000 for time to time supply of paper by Mr. Basu to Mr. Chandan. Basu supplies paper to Chandan more than the value of INR 50,000 and Mr. Chandan pays. Later on Mr. Basu, at the request of Chandan, supplies paper valued INR 60,000. This time Chandan fails to pay. What action Basu can take against Mitra? [2]

(d) (i) Transfer of Title to goods takes place when it is intended. Whether it is correct? [2]

(ii) Wages cannot be paid by cheque but can be paid in kind. Answer based on provision of Payment of Wages Act 1936. [2]

(e) (i) What are the benefits a member of an Employees Provident Fund & Misc. Provisions Act 1952 can get on retirement/death? [2]

(ii) ABC Pvt. Ltd. incorporated on 2nd January 1980 carrying on business from the date of incorporation employing 50 persons. Due to loss, the number of employees reduced to five w.e.f. 02.06.2011. Mr. 'A' who retired on 31.05.2013 was refused gratuity on the ground that the total number of employees is below 10 (ten). Whether employer was justified? [3]

(f) As per factories Act, adequate shelters, rest rooms and lunch rooms are mandatory in all the factories. Do you agree? Give correct answer. [2]

Answer:

4. (a) Wife cannot succeed. Sec. 25 (1) of Indian contract Act provides that a contract without consideration shall be valid if made out of natural love and affection between parties standing in a near relation to each other through a written and

registered document. Mere nearness of relation or relationship does not impart natural love and affection.

In this case since the promise to transfer property is made after reference to quarrels & disagreement, the contract shall not be enforceable as natural love and affection was absent.

- (b)** If a contract is contingent upon how a person will act at an unspecified time, the event shall be considered to become impossible when such person does anything which renders it impossible that he should so act within any definite time, or otherwise than under further contingencies (Sec. 34).

In the instant case, future event on which the contract is contingent in the future conduct of a living person. Therefore the marriage of Y with Z must be considered impossible at the time Z marries F. Although it is possible that F dies and Z afterwards marries Y. Therefore at that point of time of Z's marriage with F, the contract becomes void on the ground of impossibility of the future event taking place. In view of this X is not legally bound to pay the agreed sum to Y.

- (c)** In this case, guarantee given by Mr. Mitra is a continuing guarantee (Sec.129) and accordingly Mr. Mitra being guarantor of INR 50000, he is liable to Mr. Basu to the extent of INR 50000 only. Mr. Basu can recover the balance amount from Chandan.

- (d)** (i) True [Sec 19 (1)]
However it is applicable in the case of contract for sale of specific or ascertained goods in a deliverable state.
- (ii) Employer may after obtaining written authorization of employed persons pay them the wages either by cheque or by crediting to their Bank A/c. In all other cases, wages shall be paid in current coins or currency notes or both but cannot be paid in kind.

- (e)** (i) Retirement benefits are:
(1) Accumulated Balance in PF A/C of the employee.
(2) The employee pension on reaching 50/58 years of age or leaving / retirement capital return of pension.
(3) Widow pension, children pension, nominee pension or death of member.
(4) Deposit linked insurance to family or to nominee.
- (ii) Payment of Gratuity Act provides that a shop or establishment to which this Act has become applicable shall continue to be governed by this Act inspite of persons employed therein at any time it has become so applicable falls below ten. Hence ABC Pvt. Ltd. cannot refuse payment of gratuity to Mr. A.

- (f)** Specified Factories which employs 150 or more workers have to provide adequate shelters, rest rooms and lunch rooms so that the workers may use them for eating meals brought by them. The aforesaid shelters etc. must be sufficiently lighted, ventilated and maintained in cool and clean conditions (Sec.4). However, any canteen maintained in accordance with the provisions of Sec. 46 shall be regarded as part of this requirement.

SECTION - II (50 Marks)
(Auditing)

5. Comment on the following statements based on legal provisions: [2×7]

(No mark for wrong reasons or justification)

- (a) Abnormal losses during construction period should be capitalised.
- (b) CARO is not applicable to private company.
- (c) In Information Technology audit, the Auditor is required to have detailed knowledge of Accounting.
- (d) Fixed assets held for resale is classified as Fixed assets.
- (e) AS 21 provides the procedures relating to "Intangible assets".
- (f) Voucher audit has no importance in financial audit.
- (g) Management Auditor is viewed as a fault finder or critic.

Answer:

5. (a) Abnormal losses during construction period should not be capitalized, it should be treated as deferred revenue expenditure and written off over a period of 3-5 years after commencement of production.
- (b) CARO is applicable to all Private Companies excepting –
- (i) A private company whose paid up capital and reserve is not more than INR 50 lakhs.
 - (ii) A private company whose turnover does not exceed INR 5 crores.
 - (iii) A private company who does not have loan outstanding exceeding INR 25 lakhs from any bank or financial institutions.
- (c) No, in information technology audit, the auditor is required to have detailed knowledge of information system alongwith general understanding of accounting.
- (d) No, these should be classified as "Current Assets" as fixed assets are not meant for resale.
- (e) AS 21 does not provide procedure relating to intangible assets, it provides the procedure regarding "consolidated financial statement"
- (f) False, voucher is an evidence. Financial audit is mainly carried out with reference to voucher. Statutory Audit Certifies that statement of accounts including Balance sheet after carrying out audit which is with reference to documentary evidence i.e., voucher. Hence voucher audit cannot be avoided.
- (g) True, management audit is viewed as a fault finder or critic and this creates heart burns among the auditees because –
1. Management Auditor being staff experts came in conflict with the line managers. The practical difficulties of line manager, lack of understanding of practical problem may be ignored by some internal auditors.
 2. Report may have adverse effect on auditees leading to hostile relationship due to –
 - (a) Fear of criticism.
 - (b) Fear that the auditees deficiencies may be high lightened thereby action by the superiors etc.

6. (a) In course of Audit, the Auditor found a Credit item of INR 5 lakhs. On enquiry, the Auditor was informed that (1) This was very old credit balance and (2) the creditor had not approached for payment. Besides the creditor could not be traced and, therefore, confirmation of the credit balance was not available. How this will be dealt with by the Auditor? [4]
- (b) Practising cost Accountants are appointed by Share-holders in General Meeting. Is the appointment valid? Comment. [2]
- (c) (i) One of the areas of Internal Audit is to review and report on compliance of law, Policies etc.— Comment. [2]
(ii) Paid up Capital & Reserve of ABC Pvt. Ltd. is INR 75 Lacs and turnover is INR three crores. What type of comment a Statutory Auditor is to give on "Internal Audit System" to comply with CARO? [2]
- (d) Sec. 292A of Companies Act 1956 lays down the Auditor's duty as a member of Audit Committee. Comment. [2]
- (e) (i) What are the Points an auditor shall consider in I.T. Audit in respect of "System Development"? [2]
(ii) What is "Pass Word" which is a part of Computer Information System? [2]
- (f) Discuss why the financial institutions demand Management Audit by Companies? [2]

Answer:

6. (a) Identities of creditors are not traceable to confirm the credit balance as appearing in the financial statement of the company. It is also not a case of pending litigation. It might be a case that an income of INR 5 Lakhs had been hidden in previous year's accounts. The statutory auditor should obtain sufficient evidence in support of the balance. He should apply alternative audit proceeding to get documentary proof for the transactions and should not rely entirely on the management's representations. Finally he should qualify his report.
- (b) A practicing cost accountant is not qualified for appointment as auditor of company even of a private limited company.
- (c) (i) True: Internal Auditor should review the system established (1) To ensure compliances with those policies, plans and procedures, law and regulations which could have a significant impact on operation. (2) To determine whether the organization is complying properly in accordance with requirement.
(ii) Since the paid up capital of ABC Pvt. Ltd. is more than INR 50 Lakhs the CARO is applicable. Clause 4 (vii) of CARO 2003, requires the Auditor to comment whether the company has an Internal Audit System Commensurate with size and nature of business.
- (d) This statement is false. Auditor is not a member of Audit Committee. He has no right to vote. However he shall attend and participate at the meetings of the Audit Committee (Sec. 292A.)
- (e) (i) For systems Development, an auditor is to verify the systems under development, meet the objective of the organization and to ensure that the system are developed in accordance with generally accepted standards for system development.
(ii) Password. This control is used to identify the person before the computer information system starts proceeding the task. The control assures that the

data fed into and the processing done by the computer information system are authorized.

- (f) Financial Institutions conduct the Management Audit while participating in equities of a company to avoid possible loss arising out of inefficient management. Financial Institutions also conduct management Audit for following reasons –
- (a) For investment in a company.
 - (b) For granting loans to company.
 - (c) For giving guarantee etc.

7. (a) List the aspect to be considered by an auditor in vouching of “Retirement Benefits”. [2]
- (b) Statutory Auditor cannot be Internal Auditor of the company - Offer your views. [2]
- (c) State the reporting requirement of Auditor under CARO in respect of “Default in repayment of duties”. [2]
- (d) How you will verify the “Sales Return” from customers? [3]
- (e) In addition to normal audit, the Statutory Auditor receives INR 50,000 for rendering services as Taxation Advisor during 2012-13. What type of disclosure is required under Schedule VI of Companies Act 1956? [2]
- (f) ABC Ltd. has two branch offices in Chennai and Hyderabad, for which Branch auditors were engaged. M/s APS & Co., Chartered Accountants being statutory Auditor of ABC Ltd. is responsible in respect of work entrusted to Branch Auditors also. Do you agree? Answer based on rules. [2]
- (g) Narrate the different design and Procedural aspect of Computer Information System /EDP System. [4]
- (h) An Audit Committee of the company can conduct the Management Audit of the same company-Offer your views based on legal provisions. [1]

Answer:

7. (a) (i) Auditor shall examine the amount payable for retirement benefits like P.F., Pension, Gratuity etc. is in accordance with the provisions of the related laws and also the agreement with the employee.
- (ii) Auditor can use the work done by an expert in this regard i.e. can use the certificate received by the client from actuary.
- (iii) If the actuarial certificate is not available, he shall examine the rationality of the method used in calculating the various benefits and cover in his report.
- (b) This statement is true.
The statutory auditor is required to comment on the report of Internal Audit and performance of the Internal Auditor. If the statutory auditor also works as Internal Auditor, it will not be possible for him to give an independent and objective report u/s 227. He will not be able to discharge his duties in proper and dispassionate manner. As such a statutory Auditor of the company cannot be its Internal Auditor.
- (c) Auditor in his audit report under CARO 2003 shall report to the effect that "Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders. If yes, the period and amount of default to be pointed out".
- (d) Verification of Sales Return.
- (i) Examine and review the procedure adopted in receiving and recording of Sales Return .

- (ii) Whether Sales Return has duly been recorded in proper register on receipt back of product goods sold.
 - (iii) Whether 'Credit Note' has been issued. Whether amount & quantity of credit note agrees with "Return Gate Pass". Bin Card, etc. whether credit notes are signed by authorized person and such notes are serially numbered. To see whether freight charges have been borne by the buyer/customer.
- (e) When any remuneration is paid for additional work besides remuneration for normal Audit such additional remuneration, fees expense or otherwise must be disclosed in Profit & Loss A/c. separately as required under Part - II, Clause 5 (i) (j) of schedule VI of the companies Act. 1956:
- (a) As auditor.
 - (b) As advisor or in any other capacity in respect of:
 - (i) Taxation matters;
 - (ii) Company Law matters;
 - (iii) Management services;
 - (iv) Other services;
 - (v) Reimbursement of expenses.
- (f) Section 228(2) of the Companies Act provides that where the accounts of any branch office are audited by a person other than the company's auditor the company's auditor shall be entitled to visit the branch office, if he deems it necessary to do so for the performance of his duties as auditor. He shall also have access at all times to the books and accounts and vouchers of the company maintained at the branch office.

The Council of the Institute of Chartered Accountants of India has reviewed the relationship between the statutory Auditor and the Branch Auditor and has come to the conclusion that the statutory auditors would not be responsible in respect of work entrusted to the Branch Auditors. So in this case APS & Co. is not responsible.

- (g) Different design and procedural aspect of EDP system are -
- (i) Consistency in performance.
 - (ii) Programme control procedures can incorporate automatic checks which locate abnormal transactions.
 - (iii) Single transaction update of multiple or data base computer file. A Single transaction entered in the system automatically makes entry in all related records.
 - (iv) System generated transaction - the Programme installed in the system initiate particular transaction on its own.
 - (v) Vulnerability of Data and programme storage media-Data are stored on hard disc or any other portable media like CD, Floppy etc. which can face intentional or accidental destruction.
- (h) Yes, The audit committee of the same company can conduct Management audit.

8. (a) From the following, determine "Inventory Turnover Ratio" and explain the effect of "High" and "Low" Ratio: [2]

		₹
(i)	Cost of Goods sold	50,000
(ii)	Average Inventory	20,000

(iii)	Opening stock	25,000
(iv)	Purchase	40,000
(v)	Closing Inventory	15,000

- (b) Information System Auditor is concerned with certain objectives. What are those objectives? [4]
- (c) Auditing through computer cannot be avoided. [1]
- (d) Whether following statements are correct? If not give the correct answer: [1×4]
- (i) Within sixty days of receipt of Cost Audit Report, the Company shall furnish to Central Government with full information and explanation.
- (ii) Audit Committee is mandatory in every company.
- (iii) Special Auditor is appointed by Board of Directors.
- (iv) Quarterly compliance report on Corporate Governance are required to be submitted to Stock Exchange within thirty days from the close of quarter.
- (e) How you will verify Provident Fund, Gratuity? [3]
- (f) To comply with CARO, state how you will report in respect of “Guarantees for loan taken by others”? [2]
- (g) As an Auditor, how you will verify the “Stock” lying with Third Party? [2]

Answer:

8. (a) Inventory turnover Ratio = Cost of Goods sold ÷ Average Inventory.

$$= \frac{50000}{20000} = 2.5$$

Higher Ratio indicates (i) efficient business activities.

Lower ratio indicates that

- (i) Some steps shall be taken to push up sales
 (ii) Low Ratio reflect dull business, over investment in Inventory etc.

This ratio is used for measuring profitability.

(b) Information system

Auditor is concerned with following objectives:

- (i) Assets Safeguarding
 (ii) Data Integrity.
 (iii) System Effectiveness.
 (iv) System Efficiency

Auditor collects necessary evidences to assets whether the Audit achieves the above objectives but due to nature of verification, auditor may fail to detect real material losses or errors.

- (c) Yes: The sophistication of computers eventually reached the point where auditor could no longer audit around the system. There is constant technological processing improvement in this field. Auditors are forced to treat computer as target of audit & through it.

- (d) (i) Incorrect: Within 30 days & not 60 days.
(ii) Incorrect : Every company having a paid up capital of not less than INR 5 crores.
(iii) Incorrect: Special Auditor is appointed by the Central Government.
(iv) Incorrect: To be submitted within 15 days and not 30 days.
- (e) Auditor shall examine that amount payable for retirement benefits like P.F., Pension Gratuity etc. is in accordance with the provisions of the concerned law and also the agreements with the employees.

Provident fund -

- Whether P.F. is under P.F. Trustee or under the control of Regional P.F. Commissioner, Whether P.F. recovered from employee's salary are being paid regularly. If not, this shall be reported through Auditors Report.
- Whether statutory dues against P.F. (both Employees & Employers Contributions) DLI, Family Pension etc. are being paid regularly. If not, to be included in the report.

Gratuity:

- Auditor should see that proper provision is made for the gratuity & if not whether the auditee has disclosed the amount not provided for.
- As provided in the Companies Act, the auditor should qualify is report if the company has not provided for gratuity either wholly or partly.
- He should check the calculation made for provision of gratuity and confirm whether it is based on the periodical actuarial valuation or not.
- See whether gratuity is provided for on a net of tax basis, then the gross amount is properly disclosed.
- See that the method used for calculating the provision for gratuity is disclosed & see the significance of such cost to the company.
- Auditor should keep in mind the provisions of AS 15 while verifying the provision made for gratuity.

(f) **Guarantees for loan taken by others:**

Whether the company has given any guarantee for loans taken by others (3rd Party) from Bank or Financial Institutions.

Whether terms and conditions of such guarantee are prejudicial to the interest of the company.

- (g) (i) To obtain confirmation from the third party including the time period and reasons thereof.
(ii) Evaluate conditions of goods and see whether adequate provisions have been made.
(iii) Check whether subsequently the goods lying with third party were sold or received back after the expiry of stipulated time period.
(iv) Ensure that the goods have been included in the closing stock though lying with third party.