

Suggested Answer_Syll2008_June2015_Paper_6

INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2015

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 question 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 mark for wrong reasons or justification) 2×7 =14
- (a) Mr. Rana parks his car at a parking place with parking fees. Locks it and keeps the key with himself. This constitutes a contract of bailment as per contract Act, 1872.
 - (b) Risk is transferred only on delivery.
 - (c) An employee governed by the Payment of Gratuity Act, 1972 committed a theft in the course of his employment and consequently his service was terminated. Hence, he is not entitled to gratuity.
 - (d) Limited Liability Partnership (LLP) is governed by the provisions of the Companies Act, 2013 and a Limited Company can not become a Partner of a LLP.
 - (e) Transport Company accepted goods of Mr. X for delivery at Mumbai. When the driver of a truck went for lunch, the goods were stolen. Hence, Driver is liable to pay to Mr. X.
 - (f) Agreement in restraints of marriage is voidable.
 - (g) As per Factories Act 1948, on adult worker shall be required or allowed to work in a factory in any day for more than 8 hours.

Answer:

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1. (a) No. mere custody of goods does not mean possession. For a Bailment to exist the bailor must give possession of the bailed property and the bailee must accept it. Sec 148, Indian contract Act, 1872, is not applicable.
- (b) Risk is transferred only when sale is complete, irrespective of whether the goods are delivered or not. Sec 26 Provided that, unless otherwise agreed, the goods are at buyer's risks when the property in the goods passes to the buyer whether delivery has been made or not. Until then buyer is not responsible for loss or damage of goods.
- (c) Reduction and forfeiture of Gratuity: Under Section 4 of the Payment of Gratuity Act, 1972, in the case of damage, loss or destruction of property of employer, due to the willful omission or negligence of the employee, the amount of gratuity to the extent of loss or damage shall stand forfeited. The gratuity payable to an employee may be wholly or partially forfeited, where the services of an employee are terminated on the ground of:
- (i) Riotous or disorderly conduct or act of violence; or
 - (ii) Committing an offence involving moral turpitude in the course of his employment. Theft is an offence involving moral turpitude and consequently, if the services of an employee had been terminated for committing theft in the course of his employment, the gratuity payable to him under the provisions of the Act shall be wholly forfeited in view of Section 4 (6) (b) (ii). (Bharat Gold Mines Ltd. Vs. Regional Labour Commissioner 1986).
- (d) (i) Provisions of the Indian Companies Act, 2013 are not applicable to LLP's. Limited Liability Partnership Act, 2008 makes provisions for the formulation and regulation of limited liability partnerships and for matters connected therewith or incidental thereto.
- (ii) An LLP can be formed by individual and/or by Body Corporate. Hence a limited company, which is a body corporate, may be a Partner of an LLP.
- (e) Mr. X can file a suit against transport co. as the carrier has a duty to deliver the goods to the destination or to return the goods if the goods could not be delivered at the destination. The driver constitutes a breach of contract by keeping the truck unattended. Even if there is no insurance Mr. X can file a suit to get an award against transport co.
- (f) **False.**
Every agreement in restraint of the marriage of any person, other than minor, is void.
- (g) **False.**
Subject to the provisions of Sec 54 of Factories Act 1948, no adult worker shall be required or allowed to work in a factory for more than 9(Nine) hrs in any day. However subject to prior approval of the Chief Inspector, the daily maximum hours may be extended for facility of change in shift.

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2. State with reasons, if the followings are correct. Give correct answer.

- (a) A threat to commit suicide does not amount to 'coercion'. 2
- (b) Intentional misrepresentation is 'fraud'. 2
- (c) 'A' sells by auction to 'B', a horse which 'A' knows to be unsound. 'A' says nothing to 'B' about the horse's unsoundness. This is a 'cause' of 'fraud'. 2
- (d) Mr. Shuvam sold his car to Mr. Ram for INR 50,000/-. After inspection and satisfaction, Mr. Ram paid INR 30,000/- and took the possession of car. He promised to pay the balance amount within next ten days, but he subsequently refused to pay. Advise Mr. Ram as to remedy. 2
- (e) A company to which the Payment of Bonus Act 1965 applies suffered heavy loss. The company decided not to pay any bonus, whether the company is justified? 2
- (f) Mr. Arun after working for 25 years 6 months and 10 days superannuated on 31.01.2015, when his salary was INR 70,000/- per month, calculate the amount of Gratuity. 2
- (g) Fill in the blanks based on Factories Act, 1948: 2
- (a) As per Factories Act, 1948, specified factories which employ _____ or more workers are to provide Canteen or Canteens.
- (b) In every factory wherein _____ or more workers are employed, the occupier shall employ Welfare Officers.
- (c) Every adult worker who has worked at least _____ days in a calendar month in a factory is allowed one day leave for every _____ days of work performed during the previous calendar year.
- (h) What are the death benefits allowed under Employees' Provident Fund & Misc. Provision Act, 1952? 2
- (i) A bill dated 6th February, 2015 was made payable 90 days after date. Determine the due date for payment. 2

Answer:

2. (a) False.

Because 'coercion' is the committing or threatening to commit, any act forbidden by the Indian Penal Code (45 of 1860) or the unlawful detaining or threatening to detain, any property to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement (Sec. 15) Hence, it amounts to coercion'.

(b) From the question, it is clear that the misrepresentation is intentional perhaps to put the other party to loss. Misrepresentation is a wrong statement is made innocently. On the other hand fraud is a wrong statement is made intentionally with a view to deceive. From the above, it seems to be a case of 'Fraud'.

(c) This is not a case of fraud. Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud. Unless the circumstances of the case are such that, regard being had to them. It is the duty of the person keeping silence to speak, or unless his silence is in itself equivalent to speak. (Sec. 17 under Explanation of Contract Act, 1872).

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(d) As per the section 55 of the Sale of Goods Act, 1930 an unpaid seller has a right to institute a suit for price against the buyer personally. The said Section lays down that -

- (i) Where under a contract of sale the property in the goods has passed to buyer and the buyer wrongfully neglects or refuses to pay for the goods, the seller may sue him for the price of the goods (Section 55(1)).
- (ii) Where under a contract of sale the price is payable on a certain day irrespective of delivery and the buyer wrongfully neglects or refuses to pay such price, the seller may sue him for the price. It makes no difference even if the property in the goods has not passed and the goods have not been appropriated to the contract (Section 55(2)).

This problem is based on above provisions. Hence, Mr. Shuvam will succeed against Mr. Ram for recovery of the remaining amount. Apart from this Mr. Shuvam is also entitled to: (1) Interest on the remaining amount, (2) Interest during the pendency of the suit. (3) Costs of the proceedings.

(e) As per section 10 of the payment of Bonus Act, 1965 a minimum bonus which shall be 8.33 per cent of the salary or wage earned by the employee during the accounting year or rupees one hundred (rupees sixty in case of employees below 15 years of age), whichever is higher is payable whether or not employer has any allocable surplus in the accounting year.

Therefore, the employees are entitled to be paid minimum bonus at rate 8.33% of the salary or wage earned during the accounting year or rupees one hundred (rupees sixty in case of employees below 15 years of age) whichever is higher Management cannot refuse the payment of minimum bonus.

(f) He worked: 25 year 6 months and 10 days hence his total service period 26 years, salary – 70,000 per month.

$$\text{Amount of Gratuity} = \frac{70,000 \times 26 (\text{No of years of Service} \times 15)}{26} = \frac{70,000 \times 26 \times 15}{26}$$

$$= 70,000 \times 15 = 10,50,000.00$$

Which exceed 10,00,000.

Hence, his amount of Gratuity is 10 lacs.

- (g) (i) 250.
(ii) 500.
(iii) 240.
(iv) 20

(h) Death benefit following are the main benefits allowed.

- (i) Provident fund amount to family or to nominee.
- (ii) Pension to family or to parent / nominee.
- (iii) Capital Return of Pension.
- (iv) EDLI Amount to family or to Nominee

(i) A Bill dated 6th February, 2015 is made payable 90 days after date from 6th February, 2015 add 90 days falls on 69.15 + Grace period 3 days. Hence, due on 09.05.2015. If 9th May, 2015 falls on holiday then the due date will be on next working day i.e., on 10.05.2015.

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3. (a) Agreements without consideration are also valid. If you agree state the circumstances. 3
- (b) Arun authorizes Barun to buy 100 Kgs. Potato account of Arun and to pay from Arun's fund which Arun given to Barun in the past. Barun buys 100 Kgs. of potato in his own name, so as to make himself personally liable for the price. State whether Arun can revoke the Barun's authority? 2
- (c) Which is unpaid seller's lien on goods i.e., Right of Lien (Seller's Lien) (Sale of Goods Act, 1930)? 2
- (d) (a) Bill of Lading is signed by the seller – is it correct? If not, give who signs the Bill of Lading. 1
- (b) When Sales Contract is silent as to place of delivery of goods, what will be the place of delivery? 1
- (e) The Charitable Institutions are not industry (Ind. Disputes Act, 1947). Do you agree? Give answer with reason. 2
- (f) When the Gratuity is paid to the employees under Payment of Gratuity Act, 1972? 2
- (g) Give correct answer based on Factories Act, 1948.
- (a) Young person is a person who has not completed fourteenth year of age. 1
- (b) Adolescent is a person who has completed fourteenth year of age. 1
- (c) No child worker shall be required or allowed to work in any day for more than 9 hours. 1
- (d) Overtime Wages payable to workers provided they work more than 8 hours in any day or more than 48 hours in any week. 1
- (h) It is correct that the provisions of Indian Partnership Act, 1932 are applicable to Limited Liabilities Partnership? 1

Answer:

3. (a) Agreement without consideration is void. The following are the exceptions to this rule:
- (i) Written and registered agreements arising out of love and affection
 - (ii) Promise to compensate
 - (iii) Promise to pay time-barred debt
 - (iv) Completed gifts i.e. gifts given and accepted.
 - (v) Bailment
 - (vi) Agency
 - (vii) Charity
- (b) As per provision of Contract Act 1872 Arun (Principal) cannot revoke Barun's Authority so far as regards payment for the potato.
- (c) Right of lien.
- (1) The unpaid seller of goods who is in possession of them is entitled to retain possession of them until payment or tender of the price in the following cases namely:
 - (a) Where the goods have been sold without any stipulations as to credit.
 - (b) Where the goods have been sold on credit, but the terms of credit has expired.
 - (c) Where the buyer becomes insolvent.
 - (2) The seller may exercise his right of lien notwithstanding that he is in possession of the goods as agent or bailee for the buyer.

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- (d) (a) Bill of lading is signed & given by shipping company.
(b) When sales contract is silent as to place of delivery, the goods to be delivered at the place at which they are at the time of sale.
- (e) Charitable institutions may be of three kinds first two kinds:
(a) Those who make profit which are used for charitable purposes.
(b) Those who earn no profit but hire services of employees and.
(c) Institutions which are running by people / organization not because they are paid wages but for a cause i.e., wholly or substantially engaged in any charitable, social or philanthropic service is not included in the terms industry.
First two types of Institutions are treated as Industries but the third is not.
- (f) Gratuity shall be payable to an employee on termination of his employment after he has rendered continuous service for more than 5 years (a) on his superannuation or (b) on his retirement or resignation or (3) on his death or disablement due to accident or decease. Continuous period of 5 years service is not required in case of death or disablement.

In case of death, the gratuity is paid to his nominee as per record of the company. In the absence of nominee, gratuity is paid to employees legal heirs.

In case of minor hire, the share of minor heir shall be deposited with the controlling authority. On attaining majority, that minor heir shall collect the amount + interest from the controlling authority.

- (g) (a) False: Young person means a person who is either a child or an adolescent (Sec. 2d).
(b) False: Adolescent means a person who has completed his fifteenth year of age but has not completed the eighteenth year of age.
(c) False: No child shall be employed or permitted to work in any day more than 4½ hours.
(d) False: Overtime wages shall be allowed if any worker work more than 9 hours in any day or 48 hours in any week.
- (h) **False:**
Save as otherwise provided, the provisions of the Indian Partnership Act, 1932 shall not apply to LLP. It is guided by the Limited Liability Partnership Act, 2008.

4. (a) Who can file complaints? (Consumer Protection Act, 1986) 2
(b) Who is the occupier of a factory under Factories Act, 1948 (excepting the Ship & Ship related business). 3
(c) Gratuity cannot be forfeited in any circumstances. Do you agree? Answer based on payment of Gratuity Act, 1972. 3
(d) What do you understand by the 'free consent'? 2
(e) A deceit which does not deceive is not fraud. Give answer based on Contract Act, 1872. 2
(f) When communication of an acceptance is complete as against the acceptor? 1
(g) In what ways 'Sale' differs from 'Hire' Purchase? 4
(h) Fill in the blanks based on Negotiable Instrument Act, 1881: $\frac{1}{2} + \frac{1}{2}$
(a) When a bill is drawn, accepted or endorsed without consideration is known as _____.
(b) Instrument incomplete in some respect is known as _____.

Answer:

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4. (a) Complaints may be filed by -

(i) The consumer to whom goods are sold or delivered or agreed to be sold or delivered or such service provided or agreed to be provided.

(ii) Any recognized consumer association, whether the consumer to whom goods sold or delivered or agreed to be sold or delivered or service provided or agreed to be provided is a member of such association or not.

(iii) One or more consumers, where there are numerous consumers having the same interest with the permission of the District Forum, on behalf of or for the benefit of all consumers so interested.

(iv) The Central or State Govt.

(b) "Occupier" of a factory means the person who has ultimate control over the affairs of the factory. Provided that in the case of a firm or other association of individuals any one of the individual partners or members thereof shall be deemed to be the occupier.

In the case of a company any one of the directors shall be deemed to be the occupier.

In the case of a factory owned or controlled by the central Govt. or any State Govt. or any local Authorities, the person or persons appointed to manage the affairs of the factory by the Central Govt. State Govt. or Local Authorities as the case may be deemed to be the occupier.

(c) **False**

(a) Gratuity can be forfeited for any employee (a) whose (1) services have been terminated for any act (2) willful omission or (3) negligent causing damages or destruction to the property belonging to the employer.

It can also be forfeited for any act which constitutes an offence involving moral turpitude.

(b) Where services have not been terminated on any of the above grounds the employer cannot withhold gratuity due to the employee.

Where the land/quarters of the employee is not vacated, by the employee, Gratuity cannot be withheld.

It can also be forfeited for his riotous or disorderly conduct or any other act of violence on his part.

(d) **Free consent -**

Consent is said to be free when it is not caused by -

(1) Coercion or

(2) Undue influence or

(3) Fraud or

(4) Misrepresentation or

(5) Mistake, subject to provisions of Sec. 20, 21 and 22 of the Indian Contract Act.

Consent, is said to be so caused when it would not have been given but for the existence of such coercion, undue influence, fraud, misrepresentation or mistake.

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- (e) Correct, a mere attempt to deceive by one party is not fraud unless the other party is actually deceived. If the party has not been deceived at all, there is no point in establishing a case of fraud and gives no ground of action.
- (f) The communication of an acceptance is complete as against the acceptor when it comes to the knowledge of the proposer.
- Or
- When it comes to the knowledge of the proposer
- (g) Distinction between 'Sale' and 'Hire Purchase'
- (1) In case of hire purchase, the hirer regularly pays the installments (Rent) agreed between the parties.
In sale the payment may be made cash down or through installments.
 - (2) A hire purchase agreement is both a bailment and an option to buy. In case of Sale it is not so.
 - (3) In case of hire purchase the hirer cannot sell the article to a third party. In Sale, the purchaser can do so. This is based on the concept of ownership.
 - (4) In case of hire purchase the ownership of goods remains with the seller till all the installment are fully paid ownership passes to buyer only at the time of payment of last installment. In the case of sale the ownership is transferred to the buyer immediately on signing of contract or payment as per agreed terms.
- (h) (a) Accommodation bill
(b) Inchoate Instrument

SECTION II (50 Marks) (Auditing)

5. **Comment on the following based on legal provisions (No mark for wrong reasons or justification):** **2x7=14**
- (a) **Accounting standard 2 is dealt with interim financial reporting while AS9 deals with construction contracts.**
 - (b) **By vouching we mean preparation of voucher for payment of petty expenses to staff and customers.**
 - (c) **Audit Report on the Accounts of the Company can be signed by any persons of the Audit Firm.**
 - (d) **There is no justification to conduct propriety audit to govt. companies and govt. departments.**
 - (e) **Internal check is said to have some fundamental aims (only indicate 4 points without details).**
 - (f) **Password is one of the controls in computer information system (CIS) and Internal Control.**
 - (g) **Scope of Management Audit can be broad as the management process itself.**

Answer:

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5. (a) False

- AS 2 : for Valuation of Inventories
- AS 9 : for Revenue recognition

(b) False

Vouching means:

- (i) Examination by the Auditor.
- (ii) Examination of Supporting documents
- (iii) To authenticate the transaction entered in the Books of Accounts & Records.
- (iv) To verify the existence of approval / authorization by Authorised Person and Correctness of recording.

(c) False

Section 145 of Companies Act 2013 provides that "the Person appointed as an Auditor of the Company shall sign the Auditors Report or sign or certify any other documents in accordance with the Provision of Companies Act or Rules made thereunder. It is noted the "Person" shall be a Chartered Accountants in practice.

(d) Not true

The system of proprietary audit is applied in respect of Govt. Companies and Govt. Departments because Public money and Public interest are involved specially to ensure that Public money is usefully utilized, leakage is checked. Assets are protected, wastage and misuse of funds & facilities are avoided etc.

(e) Internal Check has following aims

- (i) To minimize the possibility of error, fraud and irregularity.
- (ii) To prevent the misappropriation of cash and goods
- (iii) To allocate duties and responsibility to every clerk in the organization so that, he may be held responsibility for their particular fraud & errors.
- (iv) To ensure an accurate recording of all business transaction.
- (v) To enhance the efficiency of the clerk in the organization.
- (vi) To exercise moral influence over the staff member.
- (vii) To prepare final account with an ease and efficiency.

(f) True

This control is used to identify the person before the computer Information System (CIS) starts processing the task. This control assures that the data fed into and processing done by the CIS are authorized.

(g) True

It is concerned with the whole field of activity of a business concern from top to bottom of a management hierarchy. Management Audit concern with the appraisal of Management Policies methods and performance. It includes review and appraisal of an organization to determine.

- (1) Better means of control
- (2) Greater improved methods
- (3) More efficient methods
- (4) Greater use of human and physical facilities and
- (5) Waste & deficiencies

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6. (a) Why does an Auditor need evidence? 2
- (b) To comply with the provisions of Companies Act, 2013, constitution of Audit Committee can not be avoided by certain class of companies. State the legal provisions. 3
- (c) As an Internal Auditor, how you will verify the 'petty cash'? 2
- (d) What are the liabilities of the Auditor for misfeasance? 2
- (e) Mr. P. S. Sarkar, a practicing chartered accountant, is the Auditor of 10 Private Companies and 10 Public Companies. On receipt of two offers, he has accepted the same thereby raising the number, of companies to twenty-two. Offer your views based on Companies Act, 2013 as to validity. 2
- (f) Describe the impact on Audit in the case Data Processing through computer service centre. 2
- (g) Explain the following which are part of control measures under computer information system. 1+1=2
- (a) Audit Trails
- (b) Edit Test
- (h) Why bank likes to get the management audit conducted? 1
- (i) As an Internal Auditor how you will verify the purchase relating to inventory (Excluding receiving control etc. relating to inventory). 2

Answer:

6. (a) Evidence is required by the Auditor to enable him to express an opinion on financial statement.
The auditor is required to obtain sufficient appropriate audit evidence to enable him to draw reasonable conclusions therefrom on which his opinion on financial statements are based.
- (b) NOT fully correct Sec. 177 (1) of Companies Act 2013 and the Rules made thereunder provides that Board of Directors of:
- (1) Every listed company and
 - (2) All Public Company with a paid up capital of 10 crores Rupees or more
 - (3) All Public Company having turnover of one hundred crore Rupees or more
 - (4) All Public Companies, having an aggregate, outstanding loans or borrowings or debentures or deposits exceeding 50 crore Rupees or more shall constitute Audit Committee. The Audit Committee shall consist of a minimum of 3 directors with independent directors forming a majority. Provided that majority of members including Chairman of Audit committee shall be persons with ability to read and understand the financial statements.
- (c) (1) To count the Cash physically on the closing date of the year and compare it with the balance shown on Petty Cash Book.
- (2) If not possible, visit on any day, count the Cash balance at the time of balance on main Cash book simultaneously and check the Accounts from the year end and to the date of counting.
- (3) See whether it is shown properly on Balance Sheet including Cash in hand.

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(d) The term “misfeasance” means breach of trust or duty and auditor is liable for damages.
[Section 543 of Companies Act, 1956]

An auditor may be held liable u/s 543 as “any person who has taken part in the promotion or formation of the company”, particularly if he has signed the declaration u/s 33 (e-Form 1) relating to the incorporation of the company.

For creation of liability u/s 543, it must be shown that there has been dishonesty or fraud, or at least gross and culpable negligence. An honest mistake not amounting to culpable negligence or breach of duty, should not be considered as “misfeasance”

(e) Mr. P. S. Sarkar who is a Chartered Accountant & qualified for appointment as Auditor of Companies can accept appointment of maximum Twenty companies both Private & Public subject to fulfillment of conditions. Hence he cannot accept such two offers. Whoever he can accept such two offers by surrendering two existing companies.

(f) Impact on auditing is as follows

(i) Wide spread end user computing could sometimes result in unintentional errors creeping into systems owing to inexperienced persons being involved. Also coordinated program modifications may not be possible.

(ii) Improper use of decision support systems can have serious repercussions. Also their underlying assumptions must be clearly documented.

(iii) Auditor's participation to a limited extent in systems development may become inevitable to ensure that adequate controls are built in.

(iv) Usage of sophisticated audit software would become a necessity since conventional methods of auditing would no longer be sufficient.

(i) The move towards paperless electronic data interchange would eliminate much of the traditional audit trail, radically changing the nature of audit evidence.

(g) Audit Trails -

Audit Trails ensures that all those record and process are maintained within the system from which financial statements are derived.

Edit Test: Edit Test Financial Control test etc help in correct data entry and the accurate processing by the Computer information system.

(h) Bank like to get the Management Audit conducted while giving Advance, granting loan etc.

(i) To see whether there is Purchase manual. The Internal Auditor should then, get down the important factors that has been prescribed in respect of Purchase of new materials etc.

Normally purchase is based on five important factors given below:

(i) Right price

(ii) Right quality

(iii) Right quantity

(iv) Right delivery

(v) Right Supplier

The Auditor therefore has to see that those principles have been duly followed.

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7. (a)

Net Profit before Interest & Taxes	1,00,000
Net Capital Employed	20,00,000
Sales	10,00,000
Current Assets	15,00,000
Current Liabilities	5,00,000

From the above information determine

- (i) The current ratio and
(ii) Comment on the result i.e., the ratio. 1+1=2
- (b) How will you review and conduct physical verification of stores? 4
- (c) What are the basic documents you as an internal auditor, check for review of 'Fixed Capital Assets'? 2
- (d) What are documents and records the Auditor need to check for issue of certificates required for compliance of corporate governance and clause 49 of listing agreements. 2
- (e) In the AGM one of the share holders wanted to inspect the Auditors Report on the Accounts but the company secretary denied as this was already forwarded to him along with notice for AGM. State the correct position based on provisions of Companies Act, 2013. 2
- (f) What are the three systematic approaches to carryout the information system audit? 3
- (g) What is 'System' under information system audit? 1
- (h) Management Audit is useful for society at large comment. 2

Answer:

7. (a) Current Ratio or Working Capital Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

$$= \frac{15,00,000}{5,00,000}$$
$$= 3 : 1$$

- (1) Current ratio indicate the short term liquidity.
- (2) An ideal current Ratio is 2 : 1
- (3) Low Ratio indicates weak financial position.
- (4) High current Ratio is treated as a sign of managerial inefficiency there may be mounting of stock etc.

(b) Physical verification of Stores:

- (i) Review the procedure of Physical verification of stores. Is it done in at the year end or the Physical verification is done on perpetual inventory system basis.
- (ii) If a perpetual inventory system exists, it is to be seen whether the stores are covered at least once in a year and important stores are covered more than once.
- (iii) Does an independent stock verification wing carry out physical verification of stores.

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- (iv) What type of records are prepared in respect of system of recording of short or excess found during physical verification.
- (v) What is the procedure in making adjustment of stores records / financial records on the basis of shortage / Surplus Report.
- (vi) Under whose Authorities, this discrepancy report is issued.
- (vii) To whom physical verification department reports.

(c) Basic documents for review would be as under

- (i) Authorization for acquisition and/or sale approval of Board of Directors / Share holders where necessary.
- (ii) Purchase orders and / or contracts, agreements
- (iii) Policies on depreciation amortization.
- (iv) Asset Register – whether complete in all respect.
- (v) Accounts manual / Plant operation Manual etc.

(d) As per clause 49 of Listing agreement, the Audit Committee shall mandatorily review the following information:

- (i) Management discussion and analysis of financial condition and results of operations;
- (ii) Statement of significant related party transactions (as defined by the Audit Committee), submitted by management;
- (iii) Management letters / letters of internal control weaknesses issued by the statutory auditors;
- (iv) Internal audit reports relating to internal control weaknesses; and
- (v) The appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee

(e) As per Section 145 of Companies Act 2013. The Auditors Report shall be read before the Company in General meeting and shall be kept open for Inspection by any member of the Company": Hence the company Secretary's opinion is not correct.

(f) Three Systematic approaches are:

- (i) Technological Innovation Process Audit.
The aim of this approach is the construct a risk profile for existing and new Project by asserting the length & depth of Company experience in it.
- (ii) Innovative Comparison Audit.
- (iii) Technological Position Audit
This review the Technologies needed by the businesses and places them in one of four categories of base key packing and emerging.

(g) "System" means the Instrumentality that combines inter related interacting artifact designed to work as a coherent entity.

(h) Yes, management Audit is useful to Society also. The Management Audit satisfy the different interest of group like customers employees, citizens, Government and others of the Society and also guide the management in the application of Scientific methods of business management for social well being.

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8. (a) What is compliance Audit? 2
- (b) How you will audit the sales return? 2
- (c) CFO of a Ltd. Co. proposes to transfer unclaimed dividend to the credit of Profit & Loss Account for the year ending 31.03.2015. As auditor, how you will deal with the same? 2
- (d) State two important reporting standards in respect of GAAP. 2
- (e) XYZ Ltd. is a holding company of ABC Ltd. appointed Mr. S. K. as Auditor of XYZ Ltd. In course of audit, Mr. S. K. wanted to visit the office of ABC Ltd. for verification of certain documents relating to holding co. CFO objected auditors visit but supplied him with financial statement of ABC Ltd. offer your views as to Auditor's demand for the said visit.2
- (f) Auditor noticed that the Contingent Liability for the bills discounted has not been disclosed. In spite of requesting the Directors, this was not set right. What action Auditor can taken in this situation? 2
- (g) What is an information technology audit? 2
- (h) What is the purpose of 'file libraries'? Which is one of the controls under computer information and internal control? 2
- (i) Who can conduct management audit? 2

Answer:

8. (a) Compliance Audit

It is common to use that the business undertaking require some certified statement on various matters and the Auditor Certify such statements after carrying out audit which might be necessary under the particular cases. All such audits are called Compliance Audit.

Suppose when a Company applies to a Bank for some loans, a certified statement showing the turnover of the Company for the past two or three years along with the current year might be necessary and for this purpose the Certified financial statements are to be attached to the application. These certified statements showing the turnover fill under the category of Compliance Audit. Internal Audit for Compliance could be more broad base to include compliance which documented procedures / policies, compliance with Statutory requirement in the relevant areas etc.

(b) Sales Return Audit of

- (i) Examine and review the procedure adopted in receiving and according to the Sales return.
- (ii) Compare the Sales Return with total sales. If the amount of sales return is considered high, ascertain the reasons therefore and suggest remedial measures.
- (iii) See whether freight charges incurred in returning the sales are borne by the customer. Examine whether there is clear policy in this regard.

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- (c) As per section 205A and 205C of Companies Act, 1956, dividend if not claimed within 30 days from the date of declaration, the total amount of unclaimed dividend should be transferred to a special Account in a Scheduled bank called "Unpaid dividend Account of Ltd." within 7 days from the date of expiry of 30 days.

If any amount remains unclaimed for a period of seven years from the date of such transfer then the amount shall be transferred to the "Investor Education and Protection Fund".

Therefore the unclaimed dividend can not in any case, be transferred to the credit of profit & Loss Account of the company as proposed by CFO.

CFO shall be advised accordingly and to comply with the above provisions. Any deviation shall be reported to the Appropriate Authority.

(d) Reporting Standards : GAAP

- (i) Financial Statements

Auditor shall make mention whether the financial statements are prepared according to the GAAP (Generally Accepted Auditing Standards) Principles or not.

- (ii) Consistency

He shall make a mention whether these principles / standards are consistently followed including current year.

- (iii) Disclosure

If Auditor does not make any adverse comment in his report, the financial standards are taken as reasonably adequate.

- (iv) Obligation

Auditor should submit his report when the work is finished stating clearly his opinion or if not possible make a mention there in that "Opinion cannot be expressed" and in such a case support it with reasons.

- (e) Proviso to Sec. 143 of Companies Act 2013 provides that the Auditor of a company which is a holding company shall have the right of access to the records of all its subsidiaries in so far as it relates to the consolidation of its Financial Statements with that of its subsidiaries. In view of above Auditor may visit the Subsidiary Co's Office.

- (f) When the directors also ignored to consider Auditors remarks and advise, Auditor has no other alternative but to qualify his report to the shareholders.

- (g) It is an examination of the control within an information technology infrastructure. These receivers may be performed in conjunction with a financial Statement Audit, internal Audit or other form of attestation engagement. This is a process of collecting and evaluating evidence of an organization information system practices and operations.

The evaluation of obtaining evidence determines if the information system are safeguarding assets, maintaining data integrity and operating effectively and efficiently to adhere to the organizations goals or objectives.

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The information technology audit is also known as Automated data processing ADP audit and Computer Audit.

- (h)** File Libraries locks on computer installation etc. are used to safeguard the computer information system from destruction and corruption.

- (i)** Management Audit can be conducted by:
 - (i) An administrative Staff
 - (ii) An Audit Committee
 - (iii) An Officer on Special Duty
 - (iv) Outside Management Consultant – who may be Chartered Accountant Cost Accountant Management Consultants & Others.
 - (v) Combination of Company talent & Management Consultants.

Whoever may be appointed as Management Auditor, he should possess qualification and adequate experience in the line of nature of Audit.