

Paper 12- Company Accounts & Audit

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Full Marks: 100

Time allowed: 3 hours

Section – A Accounts of Joint Stock Company

PART – I

Answer Question Number 1. All parts of this question are compulsory.

1. (a) Choose the correct answer from the given four alternatives: [6× 1]= 6
- (i) Which of the following does not allow any amount to be transferred to the Capital Redemption Reserve Account ?
(a) Securities premium account
(b) Forfeited shares account
(c) Profit on sale of Machinery
(d) Both a and b
- (ii) In the Cash Flow Statement of PQ Ltd., a finance company, interest received on loans will appear under _____.
(a) Cash Flow from Operating Activities
(b) Cash Flow from Investing Activities
(c) Cash Flow from Financing Activities
(d) Cash and Cash Equivalent
- (iii) Which of the following is not a criterion for selecting a reportable segment under AS17?
(a) 10% or more of aggregate revenue of all segment
(b) 10% or more of aggregate assets of all segment
(c) 10% or more of aggregate liabilities of all segment
(d) Both a and b
- (iv) In case of an Insurance Company the register of claims contains which of the following data?
(a) The data of claim
(b) The name and address of claimant
(c) Date of discharging the claim
(d) All of the above
- (v) _____ is a currency other than the functional currency of the entity, which the entity operates.
(a) Reporting Currency
(b) Foreign Currency
(c) Closing Rate
(d) None of the above
- (vi) Instalment of principal amount of long-term loan payable within next 12 months is shown under Balance Sheet of a company under the heading _____.
(a) Non-current liabilities
(b) Current Assets
(c) Non-current Assets
(d) Current Liabilities

Answer:

- (i) (d)
- (ii) (a)
- (iii) (c)
- (iv) (d)
- (v) (b)
- (vi) (a)

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

	Column 'A'		Column 'B'
1.	Central Electricity Regulatory Commission	A.	Issues to directors or Employees
2.	AS 12	B.	No voting right
3.	Debentures	C.	Accounting for Government Grants
4.	Sweat Equity Shares	D.	One Chairperson and 3 members

Answer:

	Column 'A'		Column 'B'
1.	Central Electricity Regulatory Commission	D.	Electricity Company
2.	AS 12	C.	Related Party Disclosure
3.	Debentures	B.	No voting right
4.	Sweat Equity Shares	A.	Issues to directors or Employees

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

- (i) As per Section 63 (1), a company may issue fully paid up bonus shares of its free Reserves.
- (ii) A shareholder will receive dividend whether a company makes a profit or not.
- (iii) The maximum number of shares to be bought back is determined by Resource test.
- (iv) A company has to create DRR in case of issue of debentures with maturity of more than 18 months.

Answer:

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

PART – II

Answer any three questions out of the following four questions

[3×12=36]

2. (a) AV Ltd. is a manufacturing Company. It has issued 1,00,000 Equity Shares of ₹10 each at par. The entire issue was underwritten as follows:
- A – 60,000 Shares (Firm underwriting 8,000 Shares)
 - B – 30,000 Shares (Firm Underwriting 10,000 Shares)
 - C – 10,000 Shares (Firm Underwriting 2,000 Shares)

The Total Applications including Firm Underwriting were for 80,000 Shares. The marked Applications were as follows –

A – 20,000 Shares

B – 14,000 Shares and

C – 6,000

The underwriting contract provides that credit for Unmarked Applications to be given to the Underwriters in Proportion to the Shares underwritten. Compute the liability of each Underwriter. [7]

- (b) PV Ltd. received a Government Grant of ₹1,200 Lakhs for acquisition of a Machinery costing ₹6,000 Lakhs, on 01.04.2020. The grant was credited to the cost of asset. The life of the Machinery is 5 years. The Machinery is depreciated at 20% on WDV basis. The company had to refund the grant in May 2022 due to non-fulfillment of certain conditions. How you would treat the refund of Grant in the books of Account? [5]

Answer:

(a)

Statement of Underwriters' Liability (No. of Shares)

Particulars	A	B	C	Total
Gross Liability (given) (6:3:1)	60,000	30,000	10,000	1,00,000
Less: Marked Applications	(20,000)	(14,000)	(6,000)	(40,000)
Less: Unmarked Application (Note)	(12,000)	(6,000)	(2,000)	(20,000)
Less: Firm Underwriting	(8,000)	(10,000)	(2,000)	(20,000)
Net Liability	20,000	-	-	20,000
Add: Firm Underwriting	8,000	10,000	2,000	20,000
Total Liability = Share to be taken up by Underwriters	28,000	10,000	2,000	40,000

Note: Unmarked Application = Total Applications 80,000 **Less** Marked Applications 40,000 **Less** Firm Underwriting 20,000 = 20,000 Shares.

(b)

Particulars	Rs. in Lakhs
Less: Original Cost of the Machinery	6,000
Government Grant [Reduced from Cost]	(1,200)
Less: Depreciable Cost as on 1.4.2019	4,800
Depreciation for 2019-20 [Rs. 4,800 x 20%]	(960)
Less: WDV on 1.4.2020	3,840
Depreciation for 2020-21 [Rs. 3,840 x 20%]	(768)
Less: WDV on 1.4.2021	3,072
Depreciation for 2021-22 [Rs. 3,072 x 20%]	(614.4)
WDV on 1.4.2022	2,457.6
Add: Refundable Government Grant	1,200
Revised Book Value of Machinery	3,657.6
Balance Useful Life	2 Years

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Depreciation to be provided for the next 2 Years [Rs. 3,657.6 ÷ 2 Years]	1,828.8
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3. (a) The cash flow statement of L Ltd. extracted below for the year ended 31st March 2021:

Particulars	Amount (Rs.)	Amount (Rs.)
Net profit		1,60,00,000
Add: Sale of investment		1,75,00,000
Depreciation of Assets		27,00,000
Issue of preference shares		22,50,000
Loan raised		11,25,000
Decrease in stock		30,00,000
		4,25,75,000
Less: Purchase of Fixed Assets	1,62,50,000	
Decrease in Creditors	15,00,000	
Increase in Debtors	20,00,000	
Exchange gain	20,00,000	
Profit on sale of investments	30,00,000	
Redemption of debentures	14,25,000	
Dividend paid	3,50,000	
Interest paid	2,36,250	2,67,61,250
		1,58,13,750
Add: Opening Cash and Cash equivalent		21,35,250
Closing Cash and Cash equivalent		1,79,49,000

Redraft and reconstruct the cash flow statement of L Ltd. in proper order for the year ended 31st March, 2021 in accordance with AS-3 using indirect method.

[8]

(b) From the following information Calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004, on the basis of data provide below:

1. Date of Commercial Operation of COD = 1st April 2017
2. Approved Opening Capital Cost as on 1st April 2017 = Rs. 15,00,000
3. Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average

Rate of Interest on Loan is as Follows				
	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed)	1,00,000	30,000	20,000	10,000

Answer:

[4]

(a)

Cash flow statement for the year ended 31st march, 2021

		Amount R(Rs.)	Amount (Rs.)
1	Cash flow from Operating Activities:		
	Net profit before Tax and Extra ordinary items:		1,60,00,000
	Adjustment for:		
	Depreciation	27,00,000	
	Profit on Sale of investment	(30,00,000)	
	Foreign Exchange gain	(20,00,000)	
	Working Capital Adjustment:		(23,00,000)
			1,37,00,000
	Decrease in stock	30,00,000	
	Decrease in Creditors	(15,00,000)	
	Increase in Debtors	(20,00,000)	(5,00,000)
	Cash from operation		1,32,00,000
	Tax paid		
	Cash flow from operating activities		
2	Cash flow from investing activities		
	Sale of investments	1,75,00,000	
	Purchase of fixed assets	(1,62,50,000)	
	Net cash from investing activities		12,50,000
3	Cash flow from Financing activities:		
	Loan raised	11,25,000	
	issue of Preference shares	22,50,000	
	Redemption of Debentures	(14,25,000)	
	Dividend paid	(3,50,000)	
	Interest paid	(2,36,250)	
	Net cash from financing activities		13,63,750
			1,58,13,750
	Net increase in Cash and Cash Equivalents		
	Cash and Cash Equivalents at beginning of the year		21,35,250
	Cash and Cash at the end of the year		1,79,49,000

(b)

Computation of Return of Equity

Particulars	1st year	2nd year	3rd year	4th year
A. Opening Equity (30%)	4,50,000	4,80,000	4,89,000	4,95,000
B. Additional Equity (30%)	30,000	9,000	6,000	3,000
c. Closing Equity (A + B)	4,80,000	4,89,000	4,95,000	4,98,000
D. Average Equity [(A + C)/2]	4,65,000	4,84,500	4,92,000	4,96,500
E. Return on Equity (D × 14%)	65,100	67,830	68,880	69,510

4. RS Ltd provides to you the following Ledger Balances after preparing its Profit and Loss

Account for the year ended 31st March 2021.

Credit Balances	₹	Debit Balances	₹
Equity Share Capital, fully paid Shares of ₹10 each	70,00,000	Calls in Arrears	7,000
General Reserve	15,49,100	Land	14,00,000
Loan from State Finance Corporation	10,50,000	Buildings	20,50,000
Secured by hypothecation of P & M (repayable within 1 yr ₹ 2.00,000)		Plant & Machinery	36,75,000

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Loans: Unsecured (Long Term)	8,47,000	Furniture & Fixtures	3,50,000
Sundry Creditors for Goods & Expenses (Payable within 6 months)	14,00,000	Stocks: Finished Goods	14,00,000
Profit & Loss Account	10,98,300	Raw Materials	3,50,000
Provision for Taxation	3,25,500	Sundry Debtors	14,00,000
		Advances: Short-Term	2,98,900
		Cash in Hand	2,10,000
		Balances with Banks	17,29,000
		Patents & Trade Marks	4,00,000
Total	1,32,69,900	Total	1,32,69,900

Additional information:

- (i) 4,20,000 fully paid Equity Shares were allotted as consideration for Land Buildings.
 - (ii) Cost of Building ₹ 28,00,000
 - (iii) Cost of Plant & Machinery ₹ 49,00,000
 - (iv) Cost of Furniture & Fixtures ₹ 4,37,500
 - (v) Sundry Debtors for ₹3,80,000 are due for more than 6 months.
 - (vi) The amount of Balances with Bank includes ₹18,000 with a Bank which is not a Scheduled Bank, and the deposits of ₹5 Lakhs are for a period of 9 months.
 - (vii) Unsecured Loan includes ₹2,00,000 from a Bank and ₹1,00,000 from Related Parties.
- You prepare the Balance Sheet of the Company as on 31st March 2021, as required under the Companies Act. [12]

Answer:

Balance Sheet of RS Ltd as on 31st March,2021

Particulars		Note	This Year	Prev. Yr
I	EQUITY AND LIABILITIES:			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	69,93,000	
	(b) Reserves and Surplus	2	26,47,400	
(2)	Non-Current Liabilities: - Long Term Borrowings	3	16,97,000	
(3)	Current Liabilities:	4		
	(a) Trade Payables		14,00,000	
	(b) Other Current Liabilities		2,00,000	
	(c) Short Term Provisions - Provision for Tax		3,25,500	
	Total		1,32,62,900	

Particulars as at 31 st March		Note	This Year	Prev. Yr
II	ASSETS Non-Current Assets			
(1)	Fixed Assets: Tangible Assets	5	74,75,000	
(2)	Intangible Assets - Patents and Trade Marks		4,00,000	
	Current Assets:			
	(a) Inventories	6	17,50,000	
	(b) Trade Receivables	7	14,00,000	
	(c) Cash and Cash Equivalents	8	19,39,000	
	(d) Short Term Loans and Advances		2,98,900	
	Total		1,32,62,900	

Note 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: Equity Shares of each Preference Shares of each		
Issued, Subscribed & Paid up: 7,00,000 Equity Shares of Rs.10 each Out of the above, 4,20,000 Shares of Rs.10 each are allotted for Non Cash Consideration	70,00,000	
Less: Calls in Arrears	(7,000)	
Total	69,93,000	

Note 2: Reserves and Surplus (showing appropriations and transfers) (all figures for this year)

Particulars	Opg. Bal.	Additions	Deductions	Clg. Bal
General Reserve		-	-	15,49,100
Surplus (P & L A/c)		-	-	10,98,300
Total		-	-	26,47,400

Note 3: Long Term Borrowings

Particulars	This Year	Prev. Yr
(a) Term Loans from Banks: Secured against Hypothecation of Plant and Machinery (10,50,000 less Amount Repayable within one year shown under Other Current Liabilities = 10,50,000-2,00,000)	8,50,000	
(b) Unsecured – Loan from Bank	2,00,000	
(c) Loans from Related Parties Unsecured	1,00,000	
(d) Loans from Other Parties Unsecured	5,47,000	
Total	16,97,000	

Note 4: Other Current Liabilities

Particulars	This Year	Prev. Yr
Current Maturities of Long Term Debt - Loan from State Finance Corporation	2,00,000	
Total	2,00,000	

Note 5: Tangible Fixed Assets (Note: In the absence of data, Other Columns are not filled up in this Table).

Item	Gross Block / Cost			Depreciation			Net Block / WDV	
	Opg Bal.	Addns/ (Dedns)	Clg Bal	Opg Bal.	Addns/ (Dedns)	Clg Bal	As at Yr Beginning	As at Yr End
Tangible Assets								
Land			14,00,000			0		14,00,000

Building			28,00,000			(b/f) 7,50,000		20,50,000
Furniture			4,37,500			(b/f) 87,500		3,50,000
Plant & M/c			49,00,000			(b/f) 12,25,000		36,75,000
Total			95,37,500			20,62,500		74,75,000
Intangible Assets								
Patents/Trademarks			4,00,000					4,00,000

Note 6: Inventories

Particulars	This Year	Prev. Yr
Raw Materials	3,50,000	
Finished Goods	14,00,000	
Total	17,50,000	

Note 7: Trade Receivables (assumed as Secured and considered good)

Particulars	This Year	Prev. Yr
Sundry Debtors		
(a) Debt Outstanding for a period exceeding 6 months from the date they are due for payment	3,80,000	
(b) Other Debts (balancing figure)	10,20,000	
Total	14,00,000	

Note 8: Cash and Cash Equivalents

Particulars		This Year	Prev. Yr
Balances with Banks			
- Scheduled Banks (17,29,000 - 18,000)	17,11,000		
- Other Banks	<u>18,000</u>	17,29,000	
Cash on Hand		2,10,000	
Total		19,39,000	

Out of the above, Bank Balances to the extent of **Rs.** 5,00,000 have Maturity Period less than 12 Months, and Bank Balances to the extent of **Rs.** 12,29,000 have Maturity Period more than 12 Months.

5. Write short note (any three):

[3×4=12]

- (a) Issue of Shares at a premium;
- (b) Types of Cash Flow;
- (c) Discloser requirement as per AS 15
- (d) Distinguish between Life and Non-Life Insurance.

Answer:

(a) Issue of Shares at a Premium

A company may issue shares at a premium, i.e., at a value greater than its face value. The power to issue shares at a premium need not be given in the Articles of Association. Premium so received shall be credited to a separate account called Securities Premium Account.

Section 52 of the Companies Act, 2013 gives the purposes for which share premium account may be applied by the company. These are:

1. For the issue of fully paid bonus shares to the members of the company;
2. For writing off preliminary expenses of the company;
3. For writing off the expenses of the commission paid or discount allowed on any issue of shares or debentures of the company; and
4. For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.
5. For the purchase of its own shares or other securities u/s 68.

(b) Types of Cash Flow

Cash Flow Statement explains cash movements under three different heads, namely

1. Cash flow from operating activities;
2. Cash flow from investing activities;
3. Cash flow from financing activities.

Sum of these three types of cash flow reflects net increase or decrease of cash and cash equivalents.

Operating activities are the principal revenue - producing activities of the enterprise and other activities that are not investing and financing. Operating activities include all transactions that are not defined as investing or financing. Operating activities generally involve producing and delivering goods and providing services.

Investment activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

(c) Discloser requirement as per AS 15

- (i) In view of the varying practices, adequate disclosure of method of accounting for an understanding of the significance of such costs to an employer.
- (ii) Disclosure separately made for statutory compliance or otherwise the retirement benefit costs are treated as an element of employee remuneration without specific disclosure.
- (iii) Financial statements should disclose whether actuarial valuation is made at the end of the accounting period or earlier (in which case the date of actuarial valuation and the method used for accrual period if not based on actuary report).

(d) Distinction between Life and Non-life Insurance

There are certain basic differences between life policies and other types of policies. These are listed below:

- (i) Human life cannot be valued exactly. Therefore each insured is permitted to insure his life for a specified sum, depending on his capacity to pay premiums. This is also one form of investment and the policy amount depends on his investment decision. In the event of the policy maturing the insurer must pay the policy amount as actual loss cannot be determined. This is not the case with other policies. Other policies are contracts of indemnity. Therefore notwithstanding the amount for which the policy is taken, the insurer would pay (reimburse) only the actual loss suffered or the liability incurred.

- (ii) Life insurance contracts are long-term contracts. Once a policy is taken premiums have to be paid for number of years till maturity and the policy amount is paid on maturity. Of course, a life policy can be surrendered after certain number of years and the insured is paid a proportion of the premiums paid known as surrender value. In the case of other policies they are for a short period of one year although the policy can be renewed year after year.
- (iii) Life insurance is known also by another term 'assurance' since the insured gets an assured sum. Other policies are known as insurance.
- (iv) The determination of profit is by different methods for life and general insurance business. In the case of life business periodically actuaries estimate the liability under existing policies. On that basis a valuation Balance Sheet is prepared to determine the profit. In the case of general insurance business a portion of the premium is carried forward as a provision for unexpired liability and the balance net of claims and expenses is taken as profit (or loss).

Section – B (Auditing)

PART – I

Answer Question Number 6. All parts of this question are compulsory.

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

- (i) Statutory Auditors can be removed by the _____.
 - (a) Creditors
 - (b) Debenture Holders
 - (c) Suppliers
 - (d) Shareholders
- (ii) Audit is a fact-finding process that compares actual results with.....
 - (a) Specified standards and plans
 - (b) Expected results
 - (c) Premature results
 - (d) Preliminary results.
- (iii) Form for maintenance of Cost Records by the Company _____.
 - (a) CRA-4
 - (b) CRA-2
 - (c) CRA-3
 - (d) CRA-1
- (iv) SA 210 stands for _____.
 - (a) Quality control for an audit of financial statement.
 - (b) Agreeing the terms of Audit engagements
 - (c) Audit Documentation
 - (d) Audit Sampling
- (v) Objective of an Audit is to formulate an overall opinion on _____.
 - (a) Financial statement
 - (b) Cost statement
 - (c) Books of accounts
 - (d) none of these

(vi) Which of the following is / are method to obtain Audit Evidence

- (a) Observation
- (b) Computation
- (c) Analytical Review
- (d) All of the above

Answer:

- (i) (d)
- (ii) (a)
- (iii) (d)
- (iv) (b)
- (v) (a)
- (vi) (d)

(B) Match the following:

[4×1=4]

	Column 'A'		Column 'B'
1.	SA 230	A	Does not agree with affirmation made by the management in the books.
2.	Objective of an audit	B	Audit Engagement
3.	Scope of work	C	Audit documentation
4.	Negative report	D	Opinion on Financial Statement

Answer :

- 1. C
- 2. D
- 3. B
- 4. A

(C) State True or False for the following question:

[4×1=4]

- (i) An Audit report is the end product of the auditing and concluding part of the audit process.
- (ii) Co-operative banks are not governed by the Co-operative Societies Act, 1912.
- (iii) Cost Auditors has to follow the Cost Auditing Standards while calculating Cost Audit.
- (iv) Secretarial Audit Report is attached with the Board report.

Answer:

- (i) False
- (ii) False
- (iii) True
- (iv) True

PART – II

Answer any three questions out of the following four questions

[3×12=36]

- 7. (a) List the main factors to be considered for determining materiality of an item. **[6]**
- (b) What are the objects of verification of assets and liabilities. **[6]**

Answer:

- (a)** Verification of assets and liabilities is done with the following objects :
- To know whether the Balance-Sheet exhibits a true and fair view of the State of affairs of the business.
 - To find out whether the assets were in existence.
 - To find out the ownership and title of the assets .
 - To show correct valuation of assets and liabilities.
 - To verify the arithmetical accuracy of the books of accounts.
 - To ensure that the assets have been recorded properly.
 - To detect frauds & errors, if any .
- (b)** The main factors to be considered for determining materiality of an item are:
- Individually: It may be determined individually. E.g., a payment of Rs. 1000 may be material in a small business, but even Rs.1 lac could be immaterial for a big business entity.
 - Aggregate: It may be determined in aggregate. E.g., total income from investment in mutual funds could be more material than looking into each individual investment.
 - Legal Considerations: It depends on the statutory or legal considerations. E.g., where the terms of appointment of a whole time director are not according to law, the remuneration paid to him is a material item even if the financial implication is not much.
 - Legal Definition: It may be defined or described in law itself. E.g., Schedule III requires separate disclosure of items of all expenses exceeding 1% of turnover or to write off capital assets purchased for less than Rs. 5000.
 - Relative overall impact: It may depend on the relative degree of relevance to the overall accounts or the group, or class of transactions to which it pertains. E.g., short recoveries from debtors.
 - Qualitative: It may be qualitative and not often reckoned with respect to quantitative details alone. E.g., improper disclosure of an accounting policy in the Notes to the Annual Financial Statements may affect economic decisions.
 - Insignificant quantity but special context: It maybe of an insignificant quantity otherwise, but material in special circumstances. E.g., rounding off to the nearest rupee the fraction of 0.666 as 0.67 in computer software. It may be material in future due to cumulative effect even if insignificant now.

8. (a) What are the criteria the eligibility, qualifications and disqualifications of auditors as per Section 141 of the Companies Act,2013. [10]

(b) Remuneration of an auditor discuss. [2]

Answer:

- (a)** (1) A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant.
- Provided that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.
- (2) Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.
- (3) The following persons shall not be eligible for appointment as an auditor of a company, namely:—
- (a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;

- (b) an officer or employee of the company;
- (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
- (d) a person who, or his relative or partner—
- (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as prescribed in rule 10 of chapter X under the act;

Rule 10 : Disqualifications of Auditor

(1) For the purpose of proviso to sub-clause (i) of clause (d) of sub-section (3) of section 141, a relative of an auditor may hold securities in the company of face value not exceeding rupees one lakh: Provided that the condition under this sub-rule shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities: Provided further that in the event of acquiring any security or interest by a relative, above the threshold prescribed, the corrective action to maintain the limits as specified above shall be taken by the auditor within sixty days of such acquisition or interest.

(2) For the purpose of sub-clause (ii) of clause (d) of sub-section (3) of section 141, a person who or whose relative or partner is indebted to the company or its subsidiary or its holding or associate company or a subsidiary of such holding company, in excess of rupees five lakh shall not be eligible for appointment.

(3) For the purpose of sub-clause (iii) of clause (d) of sub-section (3) of section 141, a person who or whose relative or partner has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of one lakh rupees shall not be eligible for appointment.

(4) For the purpose of clause (e) of sub-section (3) of section 141, the term "business relationship" shall be construed as any transaction entered into for a commercial purpose, except –

- (i) commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules or the regulations made under those Acts;
- (ii) commercial transactions which are in the ordinary course of business of the company at arm's length price - like sale of products or services to the auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.
- (iii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as prescribed in rule 10 of chapter X under the act; or
- (iv) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for such amount as prescribed in rule 10 of chapter X under the act;

(e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as prescribed in rule 10 of chapter X under the act;

(f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;

(g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;

(h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction; (i) A person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company.

- (b)** (1) The remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein.
 Provided that the Board may fix remuneration of the first auditor appointed by it.
- (2) The remuneration under sub-section (1) shall, in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended to him but does not include any remuneration paid to him for any other service rendered by him at the request of the company.

9. (a) What are the significant difference between Audit Report and Audit Certificate. [8]

(b) Discuss the procedure for appointment of cost auditor under the Companies Act 2013? [4]

Answer:

(a)

S.NO.	Basis	Audit Report	Audit Certificate
1	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.
2	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
3	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.
4	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
5	Coverage	Audit Report always covers entire accounts of the concern	While Audit Certificate covers only certain part of the accounts of the concern.
6	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
7	Suggestion	Audit Report may provide certain suggestions for improvement	While Audit certificate does not provide any such suggestion
8	Scope	Audit Report covers all transactions done during the year	while the Audit Certificate is very specific.

(b)

1. The cost auditor is to be appointed by the Board of Directors (BOD) on the recommendation of the Audit Committee, where the company is required to have an Audit Committee.
2. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors.
3. The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2 along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.
4. Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors (BOD) within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

10. Write short notes (any three)

[3×4 = 12]

(a) Audit of alteration of Capital as per Section 61

(b) Inventory Audit

(c) Audit of Educational Institute

(d) Branch Audit

Answer:

(a) Audit of alteration of Share Capital [Section 61]

- Confirm that alteration was authorised by articles.
- Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained.
- Verify that alteration had been effected in copies of Memorandum, Articles, etc.
- Obtain the reasons for which the memorandum of the company is altered.
- Check whether there is any change in the voting percentage of shareholders due to consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares.
- To confirm that the alter share capital's denomination should be more than R1.
- Verify that proper accounting entries have been passed. Register of members may also be checked to see that the necessary alteration have been effected therein.

(b) Inventory audit

Inventories are tangible property held for sale in the ordinary course of business, or in the process of production for such sale, or for consumption in the production of goods or services for sale, including maintenance supplies and consumable stores and spare parts meant for replacement in the normal course. Inventories normally comprise raw materials including components, work-in-process, finished goods including by-products, maintenance supplies, stores and spare parts, and loose tools.

the case of manufacturing and trading entities as well as some service rendering entities. Audit of inventories, therefore, assumes special importance.

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

- By their very nature, inventories normally turn over rapidly.
- Inventories are susceptible to obsolescence and spoilage. Further, some of the items of inventory may be slow-moving while others may follow a seasonal pattern of movement.
- Inventories are normally movable in nature, although there may be some instances of immovable inventories also, e.g., in the case of an entity dealing in real-estate.
- All the items of inventory may not be located at one place but may be held at different locations such as factories and warehouses, or with third parties such as selling agents.
- The individual items of inventory may not be significant in value, but taken together, they normally constitute a significant proportion of total assets and current assets of manufacturing, trading and certain service entities.
- Physical condition (e.g., stage of completion of work-in-process in certain industries) and existence of certain items of inventories may be difficult to determine.
- Valuation of inventories may involve varying degrees of estimation, including expert opinions, e.g., in the case of jewelry.

(c) Audit of Educational Institute

The special steps involved in the audit of an educational institution are the following:

- Examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed there under.
 - Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, specially the decisions as regards the operation of bank accounts and sanctioning of expenditure.
 - Check names entered in the Students' Fee Register for each month or term, with the respective class registers, showing names of students on rolls and test amount of fees charged; and verify that there operates a system of internal check which ensures that demands against the students are properly raised.
 - Check fees received by comparing counterfoils of receipts granted with entries in the cash book and tracing the collections in the Fee Register to confirm that the revenue from this source has been duly accounted for.
 - Total up the various columns of the Fees Register for each month or term to ascertain that fees paid in advance have been carried forward and the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
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- Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund, unless the Managing Committee has taken a decision to the contrary.
 - See that free studentship and concessions have been granted by a person authorised to do so, having regard to the prescribed Rules.
 - Confirm that fines for late payment or absence, etc., have either been collected or remitted under proper authority.
 - Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.

—Branch office, in relation to a company, means any establishment described as such by the company - section 2(14) of the 2013 Act.

Audit of Branch Office by company's auditor or branch auditor - Where a company has a branch office, the accounts of that office shall be audited either by the company's auditor (i.e. auditor appointed for the company in AGM) or by any other person qualified for appointment as an auditor of the company under the 2013 Act. Such 'branch auditor' shall be appointed as such under section 139 of the 2013 Act - first part of section 143(8) of the 2013 Act.

Audit of branch offices outside India - Where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country. The duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be as may be prescribed second part of section 143(8) of the 2013 Act.

Report by Branch Auditor to company's auditor - The branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the company's auditor. The company's auditor shall deal with the report of branch auditor in his report in such manner as he considers necessary proviso to section 143(8) of the 2013 Act.

Duties and powers of company's auditors in connection with branch audit - Duties and powers of company's auditor (main auditor) with reference audit of branch and branch auditor shall be as contained in section 143(1) to 143(4) of the 2013 Act and Rule 12(1) of Companies (Audit and Auditors Amendment Rules, 2015). Thus, the company's auditor is responsible even if branch auditor is appointed.

Branch auditor's responsibility to report fraud - Responsibility to report fraud, as applicable to company's auditor applies to branch auditor.