

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: [6x1=6]
- (i) Which of the following item is not a part of cash flow from operating activities?
- (a) Collection from customers
 - (b) Payment of outstanding wages
 - (c) Advances to foreign suppliers for raw materials
 - (d) All of the above
- (ii) Bonus share is a free share issued without any consideration to an existing shareholder in the ratio of by that shareholder.
- (a) number of shares held
 - (b) 2: 3
 - (c) 1 : 1
 - (d) None of the above
- (iii) Transfer to Capital Redemption Reserve Account is allowed from which of these profits?
- (a) Forfeited shares account
 - (b) Workmen's compensation fund
 - (c) Workmen's accident fund
 - (d) Both (b) and (c)
- (iv) A _____ is a voluntary and autonomous association of certain persons with capital divided into numerous transferable shares formed to carry out a particular purpose in common.
- (a) firm
 - (b) Company
 - (c) trust
 - (d) None of the above
- (v) Which of the following is are the advantages of buy-back?
- (a) A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital.
 - (b) Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax
 - (c) Buy – back may be used as a weapon to frustrate any hostile take over of the of the company by widerirable persons.
 - (d) All of the above

- (vi) If the maturity of debentures is more than ____months, the company has to appoint debenture trustees to safeguard the interests of the debenture holders.
- (a) 1
(b) 12
(c) 6
(d) 18

Answer: 1 (a)

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

(b) Match the following:

[4×1=4]

	Column 'A'		Column 'B'
1.	AS 16	A.	Transfer to capital redemption reserve account
2.	Section 39	B.	Issue of Sweat Equity Shares
3.	Section 54	C.	Borrowing Cost
4.	Voluntary debenture sinking fund	D.	Allotment of Securities by company

Answer: (b)

	Column 'A'		Column 'B'
1.	AS 16	C.	Borrowing Cost
2.	Section 39	D.	Allotment of securities by company
3.	Section 54	B.	Issue of Sweat Equity Shares
4.	Voluntary debenture sinking fund	A.	Transfer to capital redemption reserve account

(c) State whether the following statements are True (or) False.

[4×1=4]

- (i) A debenture holder has a right to interest event if the company does not make profit..
- (ii) When a share is issued at a value greater than its face value it is said to be issued at a premium.
- (iii) Debenture is an instrument to acknowledge the creditors of the company.
- (iv) When a company purchases its own shares out of free reserves a sum equal to the nominal value of the shares so purchased shall be transferred to the general reserve account.

Answer: (c)

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

PART – II

Answer any three questions out of the following four questions

[3×12=36]

2. (a) S Ltd. has issued 10,000 12% Debentures of ₹100 each on 1.4.2019. These debentures are redeemable after 3 years at 5% premium. Interest is payable annually on March 31. On 01.10.20 it purchases 1500 own Debentures from the market at ₹98 (Cum. Int.). These are sold away on 30.6.21 at 105 (cum). On 01.01.21, it buys 1000 Own Debentures at 104 (cum) and cancelled on 30.06.16. On 1.10.21 it buys 2000 own Debentures at ₹102 (ex-int) per Debenture for immediate cancellation. Other Debentures are redeemed on 31.03.2022. Give necessary Journal entries for the years 2019-20, 2020-21 & 2021-22. [8]

Answer: 2 (a)

Date	Particulars		Dr. (₹)	Cr. (₹)
1.4.19	Bank A/c Dr. To 12% Debenture A/c	Dr.	10,00,000	10,00,000
31.3.20	Debenture Interest A/c To Bank A/c	Dr.	1,20,000	1,20,000
	Profit & loss A/c To Debenture Interest A/c	Dr.	1,20,000	1,20,000
	Profit & Loss A/c or Statement of Profit or Loss To Debenture Redemption Reserve A/c (25% of face value of debentures transferred to DRR) – assumed	Dr.	2,50,000	2,50,000
1.10.20	Own Debenture A/c Interest on Own Debenture A/c [1,500×100×12%×6/12] To Bank A/c [1,500×98]	Dr. Dr.	1,38,000 9,000	1,47,000
1.1.21	Own Debenture A/c Interest on Own Debenture A/c [1,000×100×12%×9/12] To Bank A/c [1,000×104]	Dr. Dr.	95,000 9,000	1,04,000
31.3.21	Debenture Interest A/c [10,00,000×12%] To Interest on Own Debenture A/c [2,500×100×12%] To Bank A/c	Dr.	1,20,000	30,000 90,000
	Profit & Loss A/c To Debenture Interest A/c	Dr.	1,20,000	1,20,000
	Interest on Own Debenture A/c To Profit & Loss A/c [30,000 - 9,000 - 9,000]	Dr.	12,000	12,000
30.6.21	Bank A/c [1,500×105] To Own Debenture A/c [balance being ex-int amount] To Interest on Own Debenture A/c	Dr.	1,57,500	1,53,000 4,500

	[1,50,000×12%×3/12]			
	Own Debenture A/c To Profit on Sale of Own Deb A/c [1,53,000 -1,38,000]	Dr.	15,000	15,000

- (b) On 20.4.2021, M Ltd obtained a loan from the bank for ₹75 lakhs to be utilised as:

Particulars	₹ (in lakhs)
Construction of a factory	30
Purchase of Machinery	25
Working Capital	15
Advance for purchase of Furniture	5

In March 2022, construction of factory was completed and machinery installed. Delivery of furniture was not received. Total interest charged by the bank for the year ending 31.3.2022 was ₹10 lakhs.

What will be the treatment of interest AS 16?

[4]

Answer:2 (b)

As per AS 16, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing cost should be recognised as an expense in the periods in which they are incurred.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. As per AS 16, if an asset is ready for its intended use or sale at the time of acquisition, the same cannot be treated as a qualifying asset.

Treatment of Interest

Items	Nature of Asset	Interest to be capitalized ₹ (in lakhs)	Interest to be charged to P&L A/c ₹ (in lakhs)
Constructions of a factory	Qualifying Asset	$(10 \times 30 / 75) = 4$	-
Purchase of a Machinery	Not a qualifying Asset	-	$(10 \times 25 / 75) = 3.33$
Working Capital	Not a qualifying Asset	-	$(10 \times 15 / 75) = 2$
Advance in purchase of Furniture	Not a qualifying Asset	-	$(10 \times 5 / 75) = 0.67$
		4	6

3. (a) Following information has been derived from the books of a Bank, as on 31st March,2022:

Particulars	Rate of Discount
Bills Discounted	1,37,05,000
Rebate on Bills Discounted (as on 01.04.2021)	2,21,600
Discount Received	10,56,650

Details of Bills Discounted are as follows:

Value of Bills (₹)	Due Date	Rate of Discount
18,25,000	05.06.2022	12%
50,00,000	12.06. 2022	12%
28,20,000	25.06. 2022	14%
40,60,000	06.07. 2022	16%

Calculate the Rebate on Bills Discounted as on 31.03.2022, and give necessary journal entries in the books of the Bank as on 31st March,2022. [7]

Answer: 3(a)

Computation of Rebate pertaining to period after Balance Sheet date:

Due Date	Amount (₹)	No. of days after Balance Sheet date	Rate	Rebate (₹)
05.06. 2022	18,25,000	30+31+5=66	12%	39,600
12.06. 2022	50,00,000	30+31+12=73	12%	1,20,000
25.06. 2022	28,20,000	30+31+25=86	14%	93,021
06.07. 2022	40,60,000	30+31+30+6=97	16%	1,72,633
				4,25,254

Computation of amount to be credited to Profit and Loss Account:

Particulars	₹
Opening Balance of Rebate on Bills Discounted	2,21,600
Add: Discount received during the year	10,56,650
	12,78,250
Less: Closing balance of Rebate on Bills Discounted	(4,25,254)
Amount to be credited to Profit and Loss A/c	8,52,996

Sl. No	Particulars	Dr. (₹)	Cr. (₹)
1	Rebate on Bills Discounted A/c Dr. To, Discount Received A/c (Being, transfer of Opening Balance in Rebate A/c to Discount Received)	2,21,600	2,21,600
2	Discount Received A/c Dr. To, Rebate on Bills Discounted A/c (Being, provision for Unexpired Discount Charges as at year-end)	4,25,254	4,25,254
3	Discount Received A/c Dr. To, Profit and Loss A/c (Being, Discount Earned Income for the year credited to Profit and Loss A/c)	8,52,996	8,52,996

(b) Consider the data extracted from the bolls of X Ltd. and item:

Particulars	Closing (₹)	Opening (₹)
Profit & Loss Account	2,24,000	24,000
Reserve	2,25,000	75,000
Proposed Dividend	48,000	40,000

Additional information are:

1. Refund of Tax- ₹1500
2. Provision for tax made during the current year- ₹70,000
3. Interim Dividend paid during the year- ₹60,000
4. Loss due to Earthquake- ₹3,00,000
5. Insurance Proceeds from earthquake disaster settlement- ₹1,50,000

[5]

Answer: 3(b)

Calculation of Net Profit Before Taxation and Extraordinary Item

Particulars	₹
Net Profit as per Profit & Loss A/c [₹2,24,000 - ₹24,000]	2,00,000
Add: Proposed Dividend for the current year	48,000
Add: Interim Dividend paid during the year	60,000
Add: Transfer to Reserve	1,50,000
Add: Provision for Tax made during the Current Year	70,000
Less: Refund of Tax	(1500)
Add: Extraordinary Item(Loss due to Earthquake)	3,00,000
Less: Extraordinary items (i.e. Insurance proceeds from earthquake disaster settlement)	(1,50,000)
Net Profit before Taxation and Extraordinary Item	6,76,500

4. From the details given below draw up the Balance Sheet of R Ltd. as at 31st March,2022 as per the Schedule III to The Companies Act , 2013:

	(₹in '000')
P & L A/c(Dr.)	50
12% Debentures	300
Proposed Dividend	20
Equity Share Capital (₹10 each)	1750
Cheques & Drafts on Hand	48
15% Pref. Share Capital (₹100 each)	1250
Prepaid Expenses	50
Bank Overdraft	65
Interest accrued on Debentures of JK Steels	12
Building under Construction	185
2500,12% JK Steel Deb. of ₹100 each, ₹80 paid up	200
Premium on Red. Of Debentures	90
Application money pending allotment	40
Bills Payables	75
Calls-in-Advance	5
Employees' earned leave payable on Retirement	45
Stores & Spares	50
Securities Deposit for Telephone	25
Brands	210
Computer Software under Development	20
Bills Receivables	270
Plant & Machinery	2220
12% Debentures of Reliance Ltd. (20% Redeemable within 1 year)	100
Investment in Land & Building	200

Note: Bills Discounted but not yet matured ₹60,000, Dividend on Preference Shares are in arrears for 2 years. [12]

Answer: 4

R LTD.
BALANCE SHEET AS AT 31ST MARCH, 2019

Particulars	Note No	2018-2019 (₹ in "000)
I. EQUITY AND LIABILITIES		
(1) Shareholder's Funds		
(a) Share Capital	1	3000
(b) Reserves and Surplus [P & L A/c(Dr.)]		(50)
(2) Share Application Money pending Allotment		40
(3) Non-Current Liabilities		
(a) Long Term Borrowings [12% Debentures]		300
(b) Other Long Term Liabilities		90
(Premium on Red. Of Debentures)		
(c) Long term Provisions (Earned Leave)		45
(4) Current Liabilities		
(a) Trade Payables		75
(b) Other Current Liabilities	2	70
(c) Short Term Provisions (Proposed Dividend)		20
Total		3590
II. ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets (Plant & Machinery)		2220
(ii) Intangible Assets (Brands)		210
(iii) Capital Work in progress (Building)		185
(iv) Intangible Assets under development		20
(b) Non-Current Investments	3	480
(c) Long-term Loans & Advances (Security)		25
(2) Current Assets		
(a) Current Investments (Deb of Reliance Ltd.)		20
(b) Inventories (Stores & Spares)		50
(c) Trade Receivables(B/R)		270
(d) Cash and Cash Equivalents (Ch. & DD)		48
(e) Other Currents Assets	4	62
Total		3590

Notes to Accounts:

NOTE 1: SHARE CAPITAL

Particulars	2021 - 2022 (₹ in "000)	2020 - 2021 (₹ in "000)
175000 Equity Shares of ₹10 each	1750	
12500, 15% Pref. Shares of ₹100 each	1250	
	3000	

NOTE 2: OTHER CURRENT LIABILITIES

Particulars	2021 - 2022 (₹ in "000)	2020 - 2021 (₹ in "000)
Bank Overdraft	65	
Calls in Advance	5	
	70	

NOTE 3: NON-CURRENT INVESTMENTS

	2021- 2022 (₹ in "000)	2020- 2021 (₹ in "000)
2500,12% JK Steel Deb. Of ₹100 each, ₹80 paid up	200	
12% Debentures of Reliance Ltd. [100-20]	80	
Investment in Land & Building	200	
	480	

NOTE 4: OTHER CURRENT ASSETS

Particulars	2021- 2022 (₹ in "000)	2020- 2021 (₹ in "000)
Prepaid Expenses	50	
Interest accrued on Debentures of JK Steels	12	
	62	

NOTE 5: CONTINGENT LIABILITIES & COMMITMENTS

Particulars	2021- 2022 (₹ in "000)	2020- 2021 (₹ in "000)
(i)Contingent Liabilities		
Bills Discounted but not yet matured	60	
(ii)Commitments		
(a)Uncalled Liability on partly paid Debentures held as Investments [2500,12% JK Steel Debentures of ₹100 each, ₹80 paid up] [2500x20]	50	
(b)Arrears of Fixed Cumulative dividends on Preference Shares [₹1250000x15/100x2]	375	

5. Write short note (any three):

[3×4=12]

- (a) Accounting treatment of Borrowing Costs as per AS 16
- (b) Escrow Account
- (c) Provisioning Arrangements for Non-Performing Assets
- (d) Importance of Cash flows

Answer: 5

(a) Importance of Cash flows:

Cash flows are crucial to business decisions. Cash is invested in the business and the rationality of such investment is evaluated taking into account the future cash flows it is expected to generate. Economic value of an asset is derived on the basis of its ability to generate future cash flows. Economic value of an asset is given by the present value of future cash flows expected to be derived from the asset.

Profit is an accounting concept. Profit is derived on accrual assumption. Profit and cash flows from operational activities are not the same. Dividend decision is taken on the basis of profit, although it is to be paid in cash. Similarly, debt servicing capacity of a company is determined on the basis of cash flows from operations before interest. Ploughing back of profit is a much talked about source of financing modernization, expansion and diversification. Unless retained profit is supported by cash, ploughing back is not possible. Thus cash flows analysis is an important basis for making several management decisions.

(b) Escrow Account:

Regulation 10(1) of the Securities and Exchange Board of India provides that a company shall, as and by way of security for performance of its obligations on or before the opening of the offer of re- purchase, deposit in an escrow account such sum as is specified in 10(2), that is:

- (a) If the consideration payable does not exceed ₹ 100 crores, 25% of the consideration;
- (b) If the consideration payable exceeds ₹100 crores, 25% up to ₹ 100 crores, and 10% thereafter.

Escrow account means an account in which money is held until a specified duty is performed, i.e., till the consideration for buy-back of shares is paid to the shareholders. This account consists of cash deposited with a scheduled commercial bank, or bank guarantee in favour of the merchant banker, or deposit of acceptable securities with appropriate margin, with the merchant banker, or combination of these.

(c) Provisioning Arrangements for Non-Performing Assets:

Category of Advances	Rate (%)
Standard Advances	
(a) Direct advances to agricultural and SME	0.25
(b) Advances to Commercial Real Estate (CRE) Sector	1.00
(c) All other loans	0.40
Sub-standard Advances	
Secured Exposures	15
Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available.	20
Unsecured other loans	25
Doubtful Advances – Unsecured Portion	100
Doubtful Advances – Secured Portion	
For Doubtful upto 1 year	25
For Doubtful > 1 year and upto 3 years	40
For Doubtful > 3 years	100

(d) Accounting treatment of Borrowing Costs as per AS 16:

- (a) Borrowing costs should either be capitalized or charged to P&L Account depending on the situation but deferment is not permitted.
- (b) Borrowing costs are capitalized as part of cost of qualifying asset when it is probable that they will result in future economic benefits and cost can be measured reliably - other borrowing costs are charged to P&L Account in the accounting period in which they are incurred.
- (c) Capitalization, on one hand reflects closely the total investment in the asset and on the other hand to charge the cost to future period against accrual of revenue.
- (d) Notional interest costs are not allowed to be capitalized.

- (e) A qualifying asset is an asset that necessarily takes a substantial period of time (usually a period of 12 months unless otherwise justified on the basis of facts and circumstances) to get ready for its intended use or sale.
- (f) Capitalization should be suspended during extended period in which active development is interrupted.
- (g) Capitalization should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- (h) Capitalization also ceases when part is completed, which is capable of being used independently of the whole.

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: [6x1=6]**

- (i) Cost Audit is covered under
 - (a) Section 204
 - (b) Section 148
 - (c) Section 139
 - (d) None of the above
- (ii) Audit Procedures to obtain audit evidences include
 - (a) Compliance Procedure or tests of controls
 - (b) Substantive Procedure
 - (c) Both (a) and (b)
 - (d) Neither (a) nor (b)
- (iii) An effective internal control system consists of which of the following steps?
 - (a) Control Environment
 - (b) Assessment of Risk
 - (c) Monitoring
 - (d) All of the above
- (iv) SA 300 is related to which of the following?
 - (a) Auditors responsibility towards planning for an audit of financial statement Documentation
 - (b) Audit Planning
 - (c) Audit materials
 - (d) Appointment of auditors
- (v) which of the following is/are step (s) of environmental audit?
 - (a) Selection and scheduling of facility to audit.
 - (b) Assessment of Internal control
 - (c) production of draft report
 - (d) All of the above

(vi) Which of the following contains Transaction Audit?

- (a) Expenditure Audit & Receipts Audit
- (b) Expenditure Audit & Income Audit
- (c) Payments Audit & Receipts Audit
- (d) None of the above

Answer: 6 (a)

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

(b) Match the following:

[4×1=4]

	Column 'A'		Column 'B'
1.	Primary objective of business	A.	Using the work of another Auditor
2.	CRA 2	B.	Cannot be its Cost Auditor
3.	SA 600	C.	Determine whether financial statement presents true and fair view
4.	Internal auditor	D.	Appointment of Cost Auditor

Answer: (b)

	Column 'A'		Column 'B'
1.	Primary objective of business	C.	Determine whether financial statement presents true and fair view
2.	CRA 2	D.	Appointment of Cost Auditor
3.	SA 600	A.	Using the work of another Auditor
4.	Internal auditor	B.	Cannot be its Cost Auditor

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

[4×1=4]

- (i) An audit report will not require a proper title.
- (ii) Test checking depends upon the statistical technique applied.
- (iii) Counting's Audit is a process conducted throughout the year,.
- (iv) A voucher is a piece of substantiating evidence, in the form of a written record of expenditure, disbursement, or completed transaction.

Answer: (c)

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

Answer any three questions out of the following four questions

[3×12=36]

7. (a) Enumerate the methods to obtain Audit Evidence.

[5]

Answer: 7 (a)

Methods to Obtain Audit Evidence Auditor obtains evidence in performing compliance and substantive procedures by any one or more of the following methods –

- (i) Inspection - It consists of examining records, documents, or tangible assets. Inspection of records and documents provides evidence of varying degrees of reliability depending on their nature, source and the effectiveness of internal controls over their processing.
- (ii) Observation - It consists of witnessing a process or procedure being performed by others.
- (iii) Inquiry and Confirmation - Inquiry consists of seeking appropriate information from a knowledgeable person inside or outside the entity, Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records.
- (iv) Computation - It consists of checking the arithmetical accuracy of source documents and accounting records or performing independent calculations.
- (v) Analytical Review - It consists of studying significant ratios and trends and investigating unusual fluctuations and items.

(b) Internal audit is an important management tool. --discuss

[7]

Answer: 7(b)

Internal audit is an important management tool for the following reasons:

- a. Internal audit ensures compliance of Companies (Auditors Report) Order, 2016.
- b. It ensures compliance of accounting standards and policies.
- c. It ensures reliability of MIS through internal audit's independent appraisal and review.
- d. It looks into the standard of efficiency of business operation.
- e. It can evaluate various problems independently and suggest improvement.
- f. This system makes the internal control system effective.
- g. It ensures the adequacy, reliability, accuracy and understandability of financial and operational data.
- h. It performs as an integral part of 'Management by system'.
- i. It can add valuable assistance to management in acquiring new business, promoting new products and expansion or diversification of business etc.

8. (a) Discuss the provisions for re-appointment of retiring auditor.

[3]

Answer: 8(a)

A retiring auditor may be re-appointed at an annual general meeting, if—

- (a) he is not disqualified for re-appointment;
- (b) he has not given the company a notice in writing of his unwillingness to be re-appointed;
- (c) a special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed;

Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company;

Where provision of section 177 is applicable i.e., constitution of Audit Committee, all appointments, including the filling of a casual vacancy of an auditor shall be made after taking into account the recommendations of such committee.

8. (b) Illustrate the provisions for reporting of Fraud by Auditor.

[9]

Answer: 8 (b)

Reporting of Frauds by Auditor:

1. If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees one crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.
2. The auditor shall report the matter to the Central Government as under:-
 - (a) the auditor shall report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than two days of his knowledge of the fraud, seeking their reply or observations within forty-five days;
 - (b) on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days from the date of receipt of such reply or observations;
 - (c) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;
 - (d) the report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed Post followed by an e-mail in confirmation of the same;
 - (e) the report shall be on the letter-head of the auditor containing postal address, e- mail address and contact telephone number or mobile number and be signed by the auditor with his seal and shall indicate his Membership Number; and
 - (f) the report shall be in the form of a statement as specified in Form ADT-4.
3. In case of a fraud involving lesser than the amount specified in sub-rule (1), the auditor shall report the matter to Audit Committee constituted under section 177 or to the Board immediately but not later than two days of his knowledge of the fraud and he shall report the matter specifying the following:-
 - (a) Nature of Fraud with description;
 - (b) Approximate amount involved; and
 - (c) Parties involved.
 - The following details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) during the year shall be disclosed in the Board's Report:- (a) Nature of Fraud with description; (b) Approximate Amount involved; (c) Parties involved, if remedial action not taken; and (d) Remedial actions taken.
 - The provision of this rule shall also apply, mutatis mutandis, to a Cost Auditor and a Secretarial Auditor during the performance of his duties under section 148 and section 204 respectively.
 - No duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.
 - The provisions of this section shall mutatis mutandis apply to—
 - (a) the cost accountant in practice conducting cost audit under section 148; or
 - (b) the company secretary in practice conducting secretarial audit under section 204.

- If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

9. (a) Discuss the procedure provision in relation to the fixing of remuneration of a cost auditor?

[4]

Answer:

Rule 14 of the Companies (Audit and Auditors) Rules, 2014 has laid down the procedure of appointment and fixing the remuneration of a cost auditor.

In the case of companies which are required to constitute an audit committee-

the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;

the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;

In the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

(b) List are the features of a Qualified Report.

[8]

Answer:

The features of a Qualified Report are

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Clarity: The Auditor must express the nature of qualification, in a clear and unambiguous manner.

Explanation: Where the Auditor answers any of the statutory affirmations in the negative or with a qualification, his Report shall state the reasons for such answer.

Placement: All qualifications should be contained in the Auditor's Report. When there are Notes, which are subject matter of a qualification, the same should preferably be annexed to the Auditors' Report. However a reference to the Notes to Accounts in the Auditors'

Report does not automatically become a qualification.

Subject to: The words "subject to" are essential to state any qualification. The qualification should be preceded by words such as "Subject to" or "Except that" to make it clear that he is making an exception.

Nature of Qualification: Vague statements, the effect of which on accounts cannot be ascertained, like, 'The debtors balances are subject to confirmation', 'No provision for taxation

has been made in view of the loss during the year', etc. should be avoided.

Violation of Law: Where the Company has committed an irregularity resulting in a breach of law, the Auditor should bring the same to the notice of the shareholders by properly qualifying his report.

Quantification: The Auditors should quantify, wherever possible, the effect of these qualifications on the Financial Statements if the same is material. Where the effect of qualification cannot be accurately quantified, the Auditor may reflect the effect on the basis of Management estimates, after carrying out necessary audit tests on such estimates.

10. Write short notes on (any three):

[3x4=12]

- (a) Audit of Alteration of Share Capital.**
- (b) Auditing and Assurance Standards Relating to Audit of Fixed Assets.**
- (c) Audit of Capital Reserve and Surplus of Banks.**
- (d) Responsibility of Joint Auditor.**

Answer: 10

(a) Audit of Alteration of Share Capital.

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

The term Property, plant and equipment in respect of those entities which are required to comply with the relevant Revised AS refers to such tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

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

(c) Audit of Capital Reserve and Surplus of banks

Capital:

- Examine the opening balance of capital
- Examine with special resolution of shareholder or MOA about increase in authorized capital during the year
- Examine with prospectus about increase in subscribed/ paid up capital
- Examine with Government notification for any fresh contribution from them.

Reserve and Surplus:

To examine the opening balance of different type of Reserve.

- Addition/ deduction from reserves.
- Reason for appropriation of any fund from such account.
- Dividend paid by bank.
- In respect of foreign branch ensure compliance with foreign laws.

(d) Responsibility of Joint Auditor.

SA 299 issued by The Institute of Cost Accountants of India on "Responsibility of Joint Auditor" lay down the responsibilities on joint auditors.

In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him. On the other hand, all the joint auditors are jointly and severally responsible –

- in respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
- in respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors. It may, however, be clarified that all the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the nature,
- timing or extent of the audit procedures agreed upon among them; proper execution of these audit procedures is the separate and specific responsibility of the joint auditor concerned;
- in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute; and
- for ensuring that the audit report complies with the requirements of the relevant statute.