

## Paper 12- Company Accounts & Audit

**Paper 12- Company Accounts & Audit**

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) In a Financial Statement where does Cost of Materials Consumed appear?
- (A) "Expenses" in Statement of Profit and Loss
- (B) "Shareholders' Fund" in Balance Sheet
- (C) "Other Non-Current Assets" in Balance Sheet Assets side
- (D) None of the above
- (ii) Section \_\_\_\_ of The Companies Act, 2013 relates to Issue of Sweat Equity Shares
- (A) 54
- (B) 52
- (C) 53
- (D) 68
- (iii) A company may buy-back its shares or other specified securities out of which of the following?
- (A) Proceeds of an earlier issue of same kind of shares
- (B) securities premium account
- (C) the proceeds of any shares or other specified securities like employees' stock option
- (D) Both (B) and (C)
- (iv) A / an \_\_\_\_\_ has voting rights.
- (A) Debenture holder
- (B) Preference Shareholder
- (C) Equity Shareholder
- (D) Creditor
- (v) \_\_\_\_\_ means the issue of new debentures in the place of old ones.
- (A) Follow on public offer
- (B) Rollover
- (C) Right Issue
- (D) Buy-back of shares
- (vi) CERC stands for
- (A) Central Electricity Regulatory Commission
- (B) Central Electricity Regulation Commission
- (C) Central Electricity Regulatory Committee
- (D) Central Electricity Regulation Committee

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(b) Match the following:

[4×1=4]

	Column A		Column B
1.	Share Surrender	A.	Accelerated Power Development and Reforms Programme
2.	Section 52	B.	Issue and Redemption of Preference Shares
3.	Section 55	C.	voluntary return of shares
4.	Electricity Companies	D.	Application of share premium account

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

[4×1=4]

- (i) In case of Electricity Companies depreciation shall be allowed upto maximum of 90% of the historical cost of the asset.
- (ii) There are two types of Underwriting Agreements: (a) Conditional and (b) Firm
- (iii) Debenture carries a fixed rate of dividend.
- (iv) The sum which is still to be paid by the Company to the shareholders for a share is known as calls in arrears.

Answer" (b)

	Column A		Column B
1.	Share Surrender	C.	voluntary return of shares
2.	Section 52	B.	Application of share premium account
3.	Section 55	C.	Issue and Redemption of Preference Shares
4.	Electricity Companies	D.	Application of share premium account

Answer" (C)

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

### PART – II

Answer any three questions out of the following four questions

[3×12=36]

2. (a) Following is the Summarized Balance Sheet (Draft) of OS Ltd. as on 30<sup>th</sup> September 2021:

Equity & Liabilities	₹	Assets	₹
Stare Capital: Issued and Fully Paid		Fixed Assets	15,00,000
5,000 Equity Shares of Rs.100 each fully paid	5,00,000	Investments:	
6 % Redeemable Preference Shares of Rs.100 (Calls in Arrears on 200 Shares)	4,95,000	(Own Debentures of Nominal of ₹1,00,000)	95,000
Reserves and Surplus:		Other Securities	
Share Premium	1,00,000	Current Assets:	1,00,000
Capital Reserve	1,00,000	Stock	2,00,000
General Reserve	2,00,000	Debtors	1,01,000
Profit and Loss A/c	3,00,000	Cash at Bank	6,00,000
10 % Debentures	2,00,000		
Sundry Creditors	7,00,000		
Total	25,96,000	Total	25,96,000

On the basis of the above date, the following were due for redemption:

- 1. 5,000, 6% Redeemable Preference Shares at a Premium of ₹25 per Share.

2. 2,000, 10% Redeemable Debentures at a premium of 10%.

Redemption was made on that date or subsequently thus:

- For the half year ending 30th September (i.e. above B/s date), the Debenture Interest and Preference Dividend were paid out of the Profits of the Company.
- On an offer made to the 10% Debenture Holders, the outsiders agreed to take new 12% Debentures at par in exchange of old Debentures, the Company also decided to assume the New Debentures.
- A Fresh Issue of 1,000 Equity Shares of ₹100 each were made at a Premium of ₹50 per Share and subscribed in full. All Money due were received forthwith.
- Redemption of all Preference Shares were made on the above date. Assume that Securities Premium A/c is usable for providing the Premium on redemption of Preference Shares.

Show all Journal Entries in relation to the above transactions.

[8]

- PP Limited has set up its business in a designated backward area, which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of ₹100 crore in capital assets, received ₹20 crore from the Government in January 2022 (accounting period being 2021-2022). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on Profit and Loss Account for the year ended 31st March, 2022. What will be the accounting treatment as per relevant Accounting Standard, discuss whether this action is justified or not.

[4]

Answer: 2

**1. Journal Entries in the books of OS Ltd.**

S. No.	Particulars	Dr. (₹)	Cr. (₹)
1.	Profit and Loss A/c To Interest on Debentures A/c To Preference Dividend A/c (Being Interest on Debentures at 10% for 6 months, and Dividend on Paid up value of Preference Share Capital at 6% for 6 months)	Dr. 24,850	10,000 14,850
2.	Interest on Debentures A/c To Interest on Own Debentures A/c To Bank A/c (Being adjustment for interest on Investment in Own Debentures since 50% of the Debentures is held by the Company and payment of interest to outsiders)	Dr. 10,000	5,000 5,000
3.	Preference Dividend A/c To Bank A/c (Being payment of Preference Dividend to outsiders)	Dr. 14,850	14,850
4.	Bank A/c To Calls in Arrears A/c (Being the Calls in Arrears on 200 Preference Shares received)	Dr. 5,000	5,000
5.	10% Debenture A/c Premium on Redemption of Debentures A/c To Debenture holders A/c (Being the amount due on redemption of 10% Debentures at a Premium of 10%)	Dr. Dr. 2,00,000 20,000	2,20,000

6.	Securities Premium A/c To Premium on Redemption of Debentures A/c (Being Premium on Redemption of Debentures are written off to Securities premium)	Dr.	20,000	20,000
7.	Debenture holders A/c To 12 % Debentures (New Series) A/c (Being the issue of New 12 % Debentures to the Debenture holders)	Dr.	2,20,000	2,20,000
8.	Investment in Own 12% Debentures (New Series) A/c To Investment A/c - for cancellation To Profit and Loss A/c - for transfer of Surplus (Being the exchange of Own 10% Debentures by Own 12% Debentures (New Series), surplus being transferred to Profit and Loss A/c)	Dr.	1,10,000	95,000 15,000
9.	Bank A/c To Equity Share Capital A/c To Securities Premium A/c (Being the Fresh Issue of Equity Shares of ₹100 each at a Premium of ₹50 per share made for the purpose of redemption of preference shares)	Dr.	1,50,000	1,00,000 50,000
10.	General Reserve A/c Profit and Loss A/c To Capital Redemption Reserve A/c (Being the transfer out of Reserves and Surplus an amount equal to Nominal value of Preference Shares redeemable otherwise then out of the proceeds of Fresh issue ₹5,00,000 - Fresh Equity Issue ₹1,00,000)	Dr. Dr.	2,00,000 2,00,000	4,00,000
11.	6% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount due to Preference Shareholders, at a premium of ₹25 per share)	Dr. Dr.	5,00,000 1,25,000	6,25,000
12.	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of Preference Shares provided out of Securities Premium)	Dr.	1,25,000	1,25,000
13.	Preference Shareholders A/c To Bank A/c (Being the amount paid to Preference Shareholders on redemption)	Dr.	6,25,000	6,25,000
14.	Interest on Own Debentures A/c To Profit and Loss A/c (Being the transfer of Interest on Own Debenture)	Dr.	5,000	5,000

Note: Preference Dividend is payable in proportion to the amount paid up on Preference Shares. It is assumed that the Articles of Association of the Company authorise such payment.

- (b) The action of the PP Ltd. is not justified in view of AS-12. AS-12 "Accounting for Govt. Grants". "Where the Govt. grants are of the nature of promoter contribution i.e. they are given with reference to the total investment in an undertaking or by way of promoters contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof the grants are treated as capital reserve, which can be neither distributed as dividend nor considered as deferred income." Therefore it is inappropriate to recognize Government grants in the profit & loss statement for the year ended 31.3.2022. Since they are not earned but represent an incentive provided by Government without related cost.

3. (a) Calculate cash flows from Financing Activities From the following information:

	April 1,2021 ₹	March 31,2022 ₹
Long-term Loans	4,00,000	5,00,000

During the year, the company repaid a loan of **Rs.2,00,000**. [4]

(b) Following is an extract from Trial Balance of NBP Bank Ltd. as at 31<sup>st</sup> March, 2022:

Particulars	Dr. ₹	Cr. ₹
Bills Discounted	51,50,000	
Rebate on bills discounted not yet due, March 31,2021		30,501
Discount received		1,45,500

An analysis of the bills discounted as shown above shows the following:

Date of Bill	Amount ₹	Period months	Rate of discount % p.a.
31.01. 2022	7,50,000	4	12
17.02. 2022	6,00,000	3	10
06.03. 2022	4,00,000	4	11
16.03. 2022	2,00,000	2	10

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. How the relevant items will appear in the Bank's Balance Sheet? [8]

Answer: 3

(a)

**Cash flows from Financing Activities**

	₹
Proceeds from long-term borrowings	3,00,000
Repayment of long-term borrowings	(2,00,000)
Net cash inflow from Financing Activities	1,00,000

Workings:

Dr.		Cr	
Particulars	Amount (₹)	Particulars	
Cash (loan repaid)	2,00,000	Balance b/d	4,00,000
Balance c/d	5,00,000	Cash (new loan raised)	3,00,000
	7,00,000		7,00,000

**Long-term Loan Account**

(b)

**Calculation of Unexpired Discount or Rebate on Bills Discounted**

Date of Bill	Date of Maturity	No. of days after 31.03.2022	Amount (₹)	Rate of Discount % p.a.	Total Amount of Discount (₹)	Proportionate Discount of days after 31.03.2022 (₹)

13.01. 2022	16.05.2017	46	7,50,000	12	90,000	$90,000 \times 46/365 = 11342$
17.02. 2022	20.05.2017	50	6,00,000	10	60,000	$60,000 \times 50/365 = 8219$
06.03. 2022	09.07.2017	100	4,00,000	11	44,000	$44,000 \times 100/365 = 12055$
16.03. 2022	19.05.2017	49	2,00,000	10	20,000	$20,000 \times 49/365 = 2685$
			Unexpired Discounts on 31.03.2022			34,301

Dr.			Discount Account		Cr.
Date	Particulars	(₹)	Date	Particulars	(₹)
31.03. 2022	To Rebate on Bills Discounted	34,301	01.04.2023	By Rebate on Bills Discounted	30,501
	To Profit & Loss A/c	1,41,700		as on 01.04.2021	
				By Sundries	1,45,500
		1,76,001			1,76,001

Journal				
Particulars		L.F.	Dr. (₹)	Cr. (₹)
Rebate on Bills Discounted A/c	Dr.		30,501	
To Discount A/c				30,501
(Unexpired discount brought forward)				
Discount A/c	Dr.		34,301	
To Rebate on Bills Discounted A/c				34,301
(Provision for unexpired discount)				
Discount A/c	Dr.		1,41,700	
To Profit & Loss A/c				1,41,700
(Discount earned for the year)				

4. Following Trial Balance of H Ltd. has been extracted, after preparation of Profit & Loss Account as on 31.0.2022.

Debit balances	₹	Credit balances	₹
Plant & Machinery	1,60,000	Equity Share (₹10 each)	1,90,000
Furniture & Fixture	34,000	Reserves	30,000
Investments	60,000	Profit & Loss A/c (01-04-21)	66,000
Inventory	16,000	15% Loans	60,000

Debtors	80,000	Creditors	46,000
Cash & Bank	36,000	Bills Payable	16,000
Advance to suppliers	24,000	Outstanding wages	6,000
Advance tax	36,000	Profit for the year	58,000
Patent	30,000	Provision for tax (21-22)	25,000
Prepaid expenses	6,000	Provision for tax (20-21)	20,700
Bills receivables	15,000		
Proposed dividend	18,000		
Dividend distribution tax	2,700		
	<b>5,17,700</b>		<b>5,17,700</b>

Prepare the Balance Sheet of H Ltd as per Schedule III as at 31-03-2022 after taking into account the following:

- Advance tax includes ₹15,000 for 2020-21. Tax for the year 2020-21 is assessed at ₹18,000.
- Transfer 5% of net profit to Reserve
- 30% of Investments represent Short-Term Investments.

[12]

Answer: 4

**Balance Sheet as at 31.03.2022**

(₹ '000)

Particulars	Note No.	Current	Prev.
<b>I EQUITY AND LIABILITIES</b>			
(1) Shareholders' Funds			
Share Capital		1,90,000	
Reserves & Surplus		1,36,000	
(3) <b>Non-current liabilities</b>			
Long-term borrowings (15% loans)		60,000	
(4) <b>Current Liabilities</b>			
Trade payables		62,000	
Other current liabilities		9,000	
Short-term provisions (provision for tax)		25,000	
<b>TOTAL</b>		4,82,000	
<b>II ASSETS</b>			
(1) <b>Non-current Assets</b>			
Fixed Assets		1,94,000	
Tangible Assets		30,000	
Intangible Assets		42,000	
Non-current Investments			
(2) <b>Current Assets</b>			
Current Investments		18,000	
Inventories		16,000	
Trade receivables		95,000	
Cash and cash equivalent		36,000	
Short-term loans and advances		45,000	
Other current assets		6,000	
<b>TOTAL</b>		4,82,000	

<b>Notes: Reserve &amp; Surplus:</b>	₹	₹	<b>Trade payables:</b>	₹
General Reserve: 01-04	30,000		Creditors	46,000
Addition during the year	2,900		Bills Payable	16,000
Profit & Loss: 01-04	66,000			62,000
PAT for the year	58,000		<b>Other Current Liabilities:</b>	
Transfer to Reserve (58,000 × 5%)	(2,900)		Outstanding Wages	6,000
Dividend paid	(18,000)		Tax liability for 20-21	3,000
D.T paid	(2,700)			9,000
Over-provision of Tax for 2020-21	2,700	1,36,000		
<b>Trade Receivables:</b>			<b>Short term Loans &amp; Advances:</b>	
Debtors	80,000		Advance to Supplier	24,000
Bills Receivables	15,000		Advance tax (36,000 – 15,000)	21,000
	95,000			45,000

5. Write short note (any three):

[3×4=12]

- Share application money pending allotment
- Right Issue of Shares;
- Geographical Segments as per AS 17
- Main features of the Electricity Act, 2003



**Answer: 5**

**(a) Share application money pending allotment**

As per Schedule III it is to be shown as a separate line item on the face of Balance Sheet. Other provisions in this respect are as follows:

- (i) Share Application Money not exceeding the Issued Capital and to the extent not refundable, is to be disclosed as a separate line item after - Share Holders Funds and before - Non-Current Liabilities.
- (ii) If the Company's Issued Capital is more than the Authorized Capital, and approval of increase in Authorized Capital is pending, the amount of Share Application Money received over and above the Authorized Capital should be shown under the head - Other Current Liabilities.
- (iii) The amount shown as Share Application Money Pending Allotment will not include Share Application Money to the extent refundable. For example, the amount, in excess of Issued Capital, or where Minimum Subscription requirement is not met. Such amount will have to be shown separately under 'Other Current Liabilities'.
- (iv) Calls Paid in Advance are to be shown under - Other Current Liabilities. The amount of interest which may accrue on such advance should also be reflected as a Liability.

**(b) Right Issue of Shares:**

Where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid-up share capital on those shares by sending a letter of offer subject to the following conditions, namely:—

- (i) the offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;
- (ii) unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice referred to in clause (i) shall contain a statement of this right;
- (iii) after the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and the company.

**(c) Geographical Segments as per AS 17**

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

- (a) similarity of economic and political conditions;
- (b) relationships between operations in different geographical areas;
- (c) proximity of operations;
- (d) special risks associated with operations in a particular area;
- (e) exchange control regulations; and
- (f) the underlying currency risks

**(d) Main features of the Electricity Act, 2003**

- (i) The activities like generation, transmission and distribution of power have been separately identified.
- (ii) The Act de-licenses power generation completely (except for hydro power projects, over a certain size).
- (iii) 10% of the power supplied by suppliers and distributors to the consumers has to be generated using renewable and non-conventional sources of energy.
- (iv) Setting up State Electricity Regulatory Commission (SERC) made mandatory.
- (v) Appellate Tribunal to hear appeals against the decision of the CERC and SERCs.
- (vi) Ombudsman scheme for consumers' grievance redressal.
- (vii) Provision for private licensees in transmission and entry in distribution through an independent network.
- (viii) Metering of all electricity supplied made obligatory.
- (ix) Provision relating to theft of electricity made more stricter.

**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) \_\_\_\_\_ System Audit is the most comprehensive type of audit which examines suitability and effectiveness of the system as a whole.
  - (a) Quantity
  - (b) Quality
  - (c) Preliminary
  - (d) Sequential
- (ii) Cost Audit is covered under
  - (a) Section 204
  - (b) Section 148
  - (c) Section 144
  - (d) Section 177
- (iii) Cost Auditor is required to submit the cost audit report in :
  - (a) CRA -4
  - (b) CRA-2
  - (c) CRA-3
  - (d) CRA-1

- (iv) Secretarial Audit is applicable to the public sector company having the turnover of-
- 50 crore
  - 100 crore
  - 200 crore
  - 250 crore
- (v) Audit of debenture is covered under section-
- Section 70
  - Section 71
  - Section 72
  - Section 73
- (vi) The \_\_\_\_\_ is also expected to provide the resources needed and select staff members to accompany the auditors.
- Client
  - Internal Auditor
  - Auditor
  - Auditee

(b) Match the following: [4×1=4]

	Column A		Column B
1.	The authority for Government Audit.	A.	Materiality in planning and performing an Audit
2.	GRA 7 Challan	B.	Unqualified opinion
3.	SA 320	C.	Comptroller & Auditor General of India.
4.	True and fair audit report	D.	Excise Duty

(c) State True or False for the following : [4×1=4]

- External Auditors are appointed by the shareholder of the Company.
- The concept of true and fair is a fundamental concept in auditing.
- An audit report is the end product of auditing.
- As per ICAI (CA) auditor need to retain the working paper for a period of 5 years.

**Answer: 6 (a)**

- (b)
- (b)
- (c)
- (a)
- (b)
- (d)

**Answer: 6 (b)**

	Column A		Column B
1.	The authority for Government Audit.	C.	Comptroller & Auditor General of India.
2.	GRA 7 Challan	D.	Excise Duty
3.	SA 320	A.	Materiality in planning and performing an Audit
4.	True and fair audit report	B.	Unqualified opinion

**Answer: 6 (b)**

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

**PART – II**

**Answer any three questions out of the following four questions**

**[3×12=36]**

7. (a) Enumerate any five basic elements of Internal Control. [7]  
(b) List the differences between audit and investigation [5]

**Answer: 7 (a)**

An effective system of internal control should have the following basic elements:

1. **Financial and other Organizational Plans:** This may take the form of manual suitably classified by flow charts. It should specify the various duties and responsibilities of both management and staff, stating the powers of authorization that reside with various members. This is important as in the event of staff absence or otherwise the correct flow of work and the internal control system could be vitiated by any wrong implementation of procedures by staff either unintentionally or willfully.
2. **Competent Personnel:** In any internal control system, personnel are the most important element. When the employees are competent and efficient in their assigned work, the internal control system can be worked and operated efficiently and effectively even if some of the other elements of the internal control system are absent.
3. **Division of Work:** This refers to the procedure of division of work properly among the employees of the organization. Each and every work of the organization. Each and every work of the organization should be divided in different stages and should be allocated to the employees in accordance with quality and skill.
4. **Separation of operational responsibility from record keeping:** If each department of an organization is being assigned to prepare its own records and reports, there may be a tendency to manipulate results for showing better performance. So in order to ensure reliable records and information, record- keeping function is separated from the operational responsibility of the concerned department.
5. **Separation of the custody of assets from accounting:** To protect against misuse of assets and their misappropriation, it is required that the custody of assets and their accounting should be done by separate persons. When a particular person performs both the functions, there is a chance of utilizing the organization's assets for his personal interest and adjusting the records to relieve himself from the responsibility of the assets.

**Answer: 7 (b)**

	BASIS	AUDIT	INVESTIGATION
1	MEANING	Auditing is an independent and systematic examination of the evidence underlying the accounting or other data in accordance with the generally accepted auditing practices to ascertain the true and fair view of the financial statements of an enterprise.	An investigation may be defined as an examination of accounts and records with a view to ascertain any fact for some special purpose which varies from assignment to assignment.

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2	SCOPE	The audit has a wide scope. In statutory audit, the scope is determined by the relevant law and in case of a private audit (e.g. management audit) by a client.	The scope of investigations, on the other hand, is limited as regards the period or areas to be covered.
3	OBJECTIVE	In audit, the accounts and records are verified as to their truth and fairness	Investigation is for special purpose (e.g. investigation on the behalf of incoming partner)
4	AUDIT PROCEDURE	The audit is conducted in accordance with the generally accepted auditing principle.	Investigations involve an extended auditing procedure
5	EVIDENCE	An auditor will evaluate the accounting records predominantly based on persuasive evidence	An investigator can draw his conclusions only on the basis of substantial or sometimes conclusive evidence.
6	APPROACH	Auditor is sceptical and not suspicious.	Whereas an investigator starts with suspicion and collects evidence to either confirm or dispel that suspicion
7	PERIODICITY	Auditing is a routine exercise (normally conducted annually).	Investigation may spread over a gap period longer than one year

8. (a) Discuss the powers of the Audit Committee? [4]

(b) State the certain services which are not to be rendered by the Auditor of a company. [8]

**Answer: 8 (a)**

The powers of the Audit Committee are enumerated below:

- Audit Committee has the power to call for comments of the Auditor about Internal Control Systems and the scope of the Audit including its observation.
- Before submission of the report to the Board the Audit Committee have the power to review the Financial Statement.
- Power to discuss any issues with the Statutory & Internal Auditor and the Management of the Company in relation to matter contained in the Financial Statement

**Answer: 8 (b)**

An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case maybe, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company, namely:—

- (i) Accounting and book keeping services;
- (ii) Internal audit;
- (iii) Design and implementation of any financial information system;
- (iv) Actuarial services;
- (v) Investment advisory services;
- (vi) Investment banking services;
- (vii) Rendering of outsourced financial services;
- (viii) Management services; and
- (ix) Any other kind of services as may be prescribed

9. (a) Write down the eligibility criteria for appointment of a cost auditor? [10]

(b) List the features of Consolidated Financial Statement [CFS] [2]

**Answer: 9 (a)**

Eligibility Criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following persons are not eligible for appointment as a cost auditor:

1. A body corporate. However, a Limited Liability partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)].
2. An officer or employee of the company. [Section 141(3)(b)].
3. A person who is a partner, or who is in the employment, of an officer or employee of the company. [Section 141(3)(c)].
4. A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary of such holding company. [Section 141(3) (d)(i)].
5. Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding ₹1 lakh. [Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014].
6. A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding ₹5 lakhs. [Section 141(3)(d)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014].
7. A person who has given any 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 an amount exceeding ₹ 1 lakh. [Section 141(3)(d)(iii) and Rule 10(3) of Companies (Audit and Auditors) Rules, 2014].
8. A person whose relative is a director or is in the employment of the company as a director or key managerial personnel of the company. [Section 141(3)(f)].
9. A person who is in the full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor if such person or persons is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. [Section 141(3)(g)].
10. A person who has been convicted by a court for an offence involving fraud and a period of ten years has not elapsed from the date of such conviction. [Section 141(3)(h)].
11. Any person whose subsidiary or associate company or any other form of entity, is engaged as on date of appointment in consulting and providing specialized services to the company and its subsidiary companies: [Section 141(3)(i) and Section 144].
  - ❖ accounting and book keeping services
  - ❖ internal audit
  - ❖ design and implementation of any financial information system
  - ❖ actuarial services
  - ❖ investment advisory services
  - ❖ investment banking services
  - ❖ rendering of outsourced financial services
  - ❖ management services

- (b) CFS are prepared using the Separate Financial Statements of the Parent, Subsidiaries, Associates and Joint Ventures and also other financial information, which might not be covered by the Separate Financial Statements of these entities.

The other financial information 'would include disclosures to be made in the CFS about the Subsidiaries, Associates and joint Ventures, proportion of items included in the CFS to which different accounting policies have been applied, adjustments made for the effects of significant transactions or other events that occur between the Financial Statements of Subsidiaries, Associates or Joint Ventures and the Parent, as the case may be, etc.

**10. Write short notes on ( any three)**

**[3×4=12]**

- (a) **Audit of hospital**
- (b) **Differences between Statutory Audit and Internal Audit**
- (c) **Joint audit**
- (d) **Audit of Inventories**

**Answer: 10**

**(a) Audit of hospital**

The following points are to be considered necessary for conducting an audit of Hospital.

- ❖ Check the letter of appointment to ascertain the scope of responsibilities.
- ❖ Study the Charter or Trust Deed under which the hospital has been set up and take a special note of the provisions affecting the accounts.
- ❖ Examine, evaluate and verify the system of internal check, internal control and determine the nature, timing and the extent of the audit procedures.
- ❖ Vouch the entries in the Patient's Bill Register with a copies of bill issued. Test check the selected bills to see that these have been correctly prepared taking into consideration the period of stay of each patient as recorded in the Attendance Schedule.
- ❖ Vouch the collection from patients with copies of bills and entries in Bills Register. Arrears of dues should be properly carried forward and where these are deemed to be irrecoverable, they should be written off under due authorizations.
- ❖ Interest and/ or dividend income should be vouched with reference to the Investment Register and Interest and Dividend warrants.
- ❖ In case of legacies and donations which are received for specific purposes, it should be ensured that any income there from is not utilized for any other purposes.
- ❖ Where receipts of subscription show a significant deviations from budgeted figures, it should be thoroughly inquired into and the matter be brought to the notice of the trustees or the Managing Committee.
- ❖ Government grants or grants from local bodies should be verifies with the reference to the correspondence with the concerned authorities.
- ❖ Clear distinction should be made between the items of capital and revenue nature.
- ❖ The capital expenditure should be incurred under proper authorization by a valid resolution of the trustees or the Managing Committee.
- ❖ Verify the system of internal check as regards purchases and issue of stores, medicines etc.
- ❖ Examine that the appointment of the staff, payment of salaries etc. are duly authorized.
- ❖ Physically verify the investments, fixed assets and inventories.

**(b) Differences between Statutory Audit and Internal Audit**

Sl. No.	Basis	Statutory Audit	Internal Audit
1	Appointing Authority	Statutory Auditor is appointed by the shareholder in the general meeting.	Internal Auditor is appointed by the Board.
2	Scope of the work	The scope of work is defined in the Companies Act.	The scope of work includes the adherence of management policies and procedures and identifies the weakness in the internal control.
3	Removal of auditor	Statutory Auditor can be removed by the shareholders.	Internal Auditor can be removed by the Board.
4	Remuneration	It is fixed by the shareholders.	It is fixed by the board.
5	Audit report	It is submitted to the appointing Authority.	It is submitted to the Board as a suggestion to improve weakness in the internal control.

**(c) Joint Audit:** In big corporate more than one persons or firm of Chartered Accountants are appointed as a Joint Auditor for conducting the audit of the company. This practice of appointing joint auditor accrues great advantages to the company. In a big organisation the task of carrying audit cannot be accomplished with single individual so for overcoming such situation joint auditor wheres appointed.

**Advantages of Joint Audit:** The various advantages that accrue out of Joint Audit are enumerated below;

- Lower workload
- Timely completion of work
- Sharing of expertise
- Improved quality of services
- Healthy competition
- Quality of performance

**Disadvantages of Joint Audit:** The disadvantages of Joint Audit are enumerated below;

- Superiority complex of some auditor
- Costly for small entity
- Lack of coordination in work
- Uncertainty about liability of work
- Psychological problem
- Difficulty in fixation of work among other

Normally, the joint auditors are able to arrive at an agreed report. However, where the joint auditors are in disagreement with regard to any matters to be covered by the report, each one of them should express his own opinion through a separate report. A joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the report and should express his opinion in a separate report in case of a disagreement

**(d) Audit of Inventories:**

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.



Inventories normally constitute a significant portion of the total assets, particularly in 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:

- (i) By their very nature, inventories normally turn over rapidly.
- (ii) 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.
- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) Valuation of inventories may involve varying degrees of estimation, including expert opinions, e.g., in the case of jewelry.