CORPORATE ACCOUNTING AND AUDITING

Time Allowed: 3 Hours Full Marks: 100

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

SECTION – A (Compulsory)

I. Choose the correct option: [15 x 2 = 30]

(i) The net profit on forfeiture and reissue of equity shares is transferred to _________.

a. Capital Reserve
b. General Reserve
c. Dividend Equalization Reserve
d. Revaluation Reserve

(ii) In case of _____________ issue the shares are offered to the existing shareholders of the company without any consideration.

a. Private Placement
b. Rights Issue
c. Bonus Issue
d. Offers for sale

(iii) As per Schedule III Current Maturities of Long-term Borrowings should be shown under -

a. Current Assets in Balance Sheet
b. Non-current Liability in Balance Sheet
c. Current Liabilities in Balance Sheet
d. Other Expenses in Statement of Profit and Loss

(iv) As per Division II of Schedule III of the Companies Act 2013, the Statement of Changes of Equity has _________ parts

a. One
b. Two
c. Three
d. Four

(v) Under which of the following, a business must generate positive net cash flow for it to survive in the long run?

a. Investing activities
b. Financing activities
c. Operating activities
d. Non cash activities

(vi) A banking company is required to maintain ___________ provision on unsecured portion of doubtful advances.

a. 25%
b. 40%
c. 50%
d. 100%

(vii) Y Ltd. supplied the following information: Net Profit for 2021-22 = ₹10,00,000 Net Profit for 2022-23 = ₹15,00,000 No. of shares prior to right issue = 5,00,000 Terms of right issue: 1 new share for every 4 shares held; right issue price = ₹20 Fair value of 1 ordinary share immediately prior to exercise of right = ₹25. Compute the Right Factor.

a. 2.5
b. 1.92
c. 1.04
d. 2.00

(viii) The expected sales value of stock is ₹20 lakhs and a commission at 10% on sale is payable to the agent. Calculate NRV.

a. ₹12 lakh
b. ₹14 lakh
c. ₹16 lakh
d. ₹18 lakh

(ix) Ordinary shares are 1,00,000 of ₹1.00; 10% Preference shares are 200000 of ₹1.00; PAT ₹10,00,000. Calculate basic EPS.

a. ₹9.80
b. ₹9.60
c. ₹9.40
d. ₹9.20

(x) According to SA 200, which of the following principles require the auditor to oversee and remain responsible for audit work delegated to assistants, other auditors, or experts?

a. Integrity, Objectivity & Independence
b. Skills and Competence
c. Work performed by Others
d. Confidentiality

(xi) Internal check is meant for _______________.

a. Prevention of frauds
b. Detection of frauds
c. Helping audit is depth
d. Detection of errors

(xii) Which of the following is not a duty of duties of the NFRA?

a. Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government.

b. Monitor and enforce compliance with Income Tax Act and auditing standards

c. Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

d. Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service.

(xiii) No individual shall be appointed or reappointed as auditor for more than one term of _______ consecutive years

a. 4

b. 5

c. 6

d. 3

(xiv) In relation to advances made by bank an auditor needs to review which of the followings?

a. Scrutinise the subsidiary, ledger, & control accounts

b. Scrutinise the overdue account and scheme for recovery of such amount.

c. Ensure the proper documentation of account

d. All of these

(xv) Which of the following is not a part of rural self-governance system in India?

a. Gram Panchayat

b. Gram Parishad

c. Panchayat Samiti

d. Zilla Parishad

Answer:

i.	ii.	iii.	iv.	v.	vi.	vii.	viii.	ix.	x.	xi.	xii.	xiii.	xiv.	xv.
a	c	c	b	c	d	c	d	a	c	a	b	b	d	b

Section – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5 x 14 = 70]

(2) (a) X Ltd. issued 10,000 Equity shares of ₹10 each at a premium of ₹2 per share, payable : ₹3 on application (including premium of ₹1); ₹4 on allotment (including the balance of premium) and the balance in a call. Public subscribed for 12,000 shares. Excess application money was refunded. One shareholder Mr. A holding 50 shares paid the call money along with allotment. Another Mr. B failed to pay allotment & call on 30 shares.

These shares were forfeited after the call and 25 of those were reissued at ₹9 each.

Pass Journals Entries. [7]

(b) M Ltd., incorporated on April 1, 2024, issued a prospectus inviting applications for 5,00,000 equity shares of ₹10 each. The issue was fully underwritten by A, B, C and D as follows:
A - 2,00,000; B - 1,50,000; C - 1,00,000; and D - 50,000.
The applications were received for 4,50,000 shares of which marked applications were as follows: A - 2,20,000; B- 90,000; C - 1,10,000; and D - 10,000.
Calculate the liability of the individual underwriters in each of the following cases:
(i) Unmarked applications are apportioned in the ratio of "Gross Liability"; and
(ii) Unmarked applications are apportioned in the ratio of "Gross Liability (-) Marked Applications". [7]

Answer:

(a)

In the books of X Ltd.
Journal (without narration)

Particulars	Dr. (₹)	Cr. (₹)
(1) Application Money Received:		
Bank A/c (12,000×3) Dr.	36,000	
To Equity Shares Application A/c		36,000
(2) Refund of excess application money:		
Equity Shares Application A/c (2,000×3) Dr.	6,000	
To Bank A/c		6,000
(3) Transfer of share application to Share Capital:		
Equity Shares Application A/c (10,000×3) Dr.	30,000	
To Equity Shares Capital A/c (10,000×2)		20,000
To Securities Premium A/c (10,000×1)		10,000
(4) Allotment Money Due:		
Equity Shares Allotment A/c (10,000×4) Dr.	40,000	
To Equity Shares Capital A/c (10,000×3)		30,000
To Securities Premium A/c (10,000×1)		10,000
(5) Allotment Money Received:		
Bank A/c (9,970×4) Dr.	39,880	
Calls-in-Arrears A/c (30×4) Dr.	120	
To Equity Share Allotment A/c (10000*4)		40,000
(6) Bank A/c Dr. (50*5)	250	
To Calls in Advance A/c		250
(7) Share Call Money Due:		
Equity Share First & Final call A/c (10,000 × 5) Dr.	50,000	
To Equity Share Capital A/c		50,000
(8) Call Money Received, Adjustment of Calls-in-Advance:		
Bank A/c (9,920 × 5) Dr.	49,600	

Calls-in-Arrear A/c (30 × 5) Dr.	150	
Calls-in-Advance A/c Dr.	250	
To Equity Shares First & Final Call A/c		50,000
(Received with Allotment, now adjusted)		
(9) Forfeiture of Shares:		
Equity Share Capital A/c (30×10) Dr.	300	
Securities Premium A/c (30×1) Dr.	30	
To Calls-in-Arrear A/c		270
To Shares Forfeited A/c		60
(10) Reissue of Forfeited Shares:		
Bank A/c (25×9) Dr.	225	
Share Forfeited A/c Dr.	25	
To Equity Shares Capital A/c (25×10)		250
Transfer of Profit on Reissue of Forfeited shares:		
Shares Forfeited A/c Dr.	25	
To Capital Reserve A/c [25 × (2 - 1)]		25

Note:

Proportionate Profit on reissue: Profit on forfeiture ₹60

Therefore, Proportionate profit on 25 shares (those are reissued) = 60/30 ×25 = 50

Less: Discount on Reissue (25×1) = 25 Transfer to Capital Reserve = 25

(b) When Unmarked applications are apportioned in the ratio of "Gross Liability"

Calculation of Liability of the underwriters (No. of shares)

Particulars	A	B	C	D
Gross Liability	2,00,000	1,50,000	1,00,000	50,000
Less: Marked Applications	2,20,000	90,000	1,10,000	10,000
	(20,000)	60,000	(10,000)	40,000
Less: Unmarked Applications	8,000	6,000	4,000	2,000
	(28,000)	54,000	(14,000)	38,000
Surplus of A & C apportioned between B & D in the ratio of Gross Liability	28,000	(31,500)	14,000	(10,500)
Net Liability	Nil	22,500	Nil	27,500

Working:

Unmarked applications = Total applications received – Marked applications
= 4,50,000 – (2,20,000 + 90,000 + 1,10,000 + 10,000)
= 20,000

Unmarked applications are apportioned in the ratio of "Gross Liability" i.e., 4:3:2:1

When Unmarked applications are apportioned in the ratio of "Gross Liability (-) Marked Applications"

Calculation of Liability of the underwriters (No. of shares)

Particulars	A	B	C	D
Gross Liability	2,00,000	1,50,000	1,00,000	50,000
Less: Marked Applications	2,20,000	90,000	1,10,000	10,000
	(20,000)	60,000	(10,000)	40,000
Surplus of A & C apportioned between B & D in the ratio of Gross Liability	20,000	22,500	10,000	7,500
	Nil	37,500	Nil	32,500
Less: Unmarked Applications	Nil	10,714	Nil	9,286
Net Liability	Nil	26,786	Nil	23,214

Working:

Total surplus = 20,000 + 10,000 = 30,000

This is to be apportioned between B and D in 150000:50000 = 3:1

Unmarked applications = Total applications received – Marked applications
= 4,50,000 – (2,20,000 + 90,000 + 1,10,000 + 10,000)
= 20,000

Unmarked applications are apportioned between B and D in the ratio of "Gross Liability (-) Marked Applications" = i.e., 37,500: 32,500 = 15:13

(3) Following are the balances of A Ltd. as on 31.3.2024

Debit	₹	Credit	₹
Premises	**30,72,000**	**Equity share capital**	**40,00,000**
Plant	**33,00,000**	**12% debentures**	**30,00,000**
Stock	**7,50,000**	**Surplus A/C**	**2,63,000**
Debtors	**8,70,000**	**Bills payable**	**3,70,000**
Goodwill	**2,50,000**	**Creditors**	**4,00,000**
Bank	**4,52,000**	**General reserves**	**2,50,000**
Calls in arrears	**75,000**	**Sales**	**41,50,000**
Interim dividend paid	**6,00,000**	**Bad debts Provision**	**35,000**
Purchases	**18,50,000**		
wages	**7,71,000**		
General expenses	**74,000**		
Salaries	**2,03,000**		
Bad debts	**21,000**		
Debenture interest paid	**1,80,000**		
	124,68,000		**124,68,000**

Additional information:

(i) Depreciate plant by 10%;

(ii) Half-year debenture interest is due;

(iii) Create 5% Provision on Debtors for bad debts;

(iv) Provide for income tax @ 35%;

(v) Stock on 31.3.2024 is ₹9,50,000;

(vi) No final dividend is declared by company;

(vii) Transfer the minimum required amount to general reserve;

(viii) Ignore corporate dividend tax.

Prepare the Profit & loss Account and Balance Sheet of A Ltd. [14]

Answer:

Statement of Profit & Loss for the year ending 31.3.24 of A Ltd.

Particulars	₹	₹
A. Income		
Revenue from operation		41,50,000
Other incomes		-
Total revenue		41,50,000
B. Expenses		
Purchases	18,50,000	
Change in Inventory	(2,00,000)	16,50,000
Employee benefits WN(1)		9,74,000
Finance cost WN(2)		3,60,000
Dep & Amortization WN(3)		3,30,000
Other Exp. WN(4)		1,03,500
Total Exp.		34,17,500
Profit before Tax (A-B)		7,32,500
(-) Pro. for tax @35%		2,56,375
Profit after tax		4,76,125

WN (1) **E. Benefits.**

Particulars	₹
Wages	7,71,000
Salaries	2,03,000
	9,74,000

WN (2) **F. Cost**

Particulars	₹
Deb. Int. paid	1,80,000
(+) o/s Int	1,80,000
	3,60,000

WN (3) **Dep & Amortization:**

Dep. on P&M = 33,00,000 × 10% = 3,30,000

WN (4) **other Exp.**

Particulars	₹	₹
Bad debt	21,000	
(+) RBD 870000 x 5 %	43,500	
(-) RBD (old)	35,000	
		29,500
General Exp.		74,000
		1,03,500

Balance Sheet of A Ltd as on 31.3.2024

Particular	W. Notes No.	Amount (₹)
I. Equity & liabilities		
Shareholder Fund Share Capital Reserves & surplus	A B	39,25,000 3,89,125
Non-Current liabilities Long term borrowing	C	30,00,000
Current liabilities Trade Payable Creditor 4,00,000 Bills Payable 3,70,000		7.70,000
Other current liabilities	D	1,80,000
Short term provisions	E	2,56,375
Total		85,20,500
II Assets		
Non Current Assets Tangible Assets Intangible Assets	F G	60,42,000 2,50,000
Current Assets Inventories Trade receivable Cash & Cash Equivalents	 H	 9,50,000 8,26,500 4,52,000
Total		85,20,500

WN(A) Share Capital

Particulars	₹
Equity Share Capital	40,00,000
(-) Calls in arrears	75,000
	3,92,5000

WN(B) Reserves & Surplus

Particulars	₹	₹
General Reserve	2,50,000	
Surplus Bal. 2,63,000		
(+) Net Profit during the year 4,76,125 (-) Interim dividend 6,00,000		3,89,125

WN (C) Long Term Borrowing

Particulars	₹
12% Debentures	30,00,000

WN(D) Other Current Liabilities

Particulars	₹
O/S int. on debentures	1,80,000

WN(E) Short Term Provisions

Particulars	₹
Pro. For Tax	2,56,375

WN(F) Tangible Assets

Particulars	₹
Premises	30,72,000
P & M 33,00,000 (-)dep. 3,30,000	29,70,000
	60,42,000

WN(G) Intangible Assets

Particulars	₹
Goodwill	2,50,000

WN(H) Trade Receivables

Particulars	₹
Debtors	8,70,000
(-) 5% Provision on debtors for bad debt	43,500
	8,26,500

(4) (a) Given below are details of interest on advance of a Commercial Bank as on 31.03.2025:

(₹ in crores)

Particulars	Interest Earned (₹)	Interest Received (₹)
Performing Assets		
Term Loan	**240**	**160**
Cash Credit and Overdraft	**1,500**	**1,240**
Bills Purchased and Discounted	**300**	**300**
Non-Performing Assets		
Term Loan	**150**	**10**
Cash Credit and Overdraft	**300**	**24**
Bills Purchased and Discounted	**200**	**40**

Calculate the income to be recognized for the year ended 31st March 2025. [7]

(b) The Life Insurance Fund of Avni Life Insurance Co. Ltd. was ₹25 lakhs on 31.03.2025. Its actuarial valuation on 31.03.2025 disclosed a net liability of ₹21.25 lakhs. An interim bonus of ₹40,000 was paid to the policy holders during previous two years. It is now proposing to carry forward ₹75,000 and to divide the balance between policy holders and the shareholders. Prepare the

(i) Valuation Balance Sheet;

(ii) Net profit for the two-year period; and

(iii) Distribution of Profit [7]

Answer:

(a) Interest on non-performing assets is considered on Cash Basis whereas interest on performing assets is considered on Accrual Basis.

Statement Showing the Recognition of Income (₹ in Crore)

Particulars	(₹)	(₹)
1. Interest on Term Loans		
(i) Performing Assets	240	
(ii) Non-performing Assets	10	250
2. Interest on Cash Credit and Overdraft		
(i) Performing Assets	1,500	
(ii) Non-performing Assets	24	1,524
3. Interest on Bills Purchased and Discounted		
(i) Performing Assets	300	
(ii) Non-performing Assets	40	340
Income to be Recognized	2,114	

(b) (i) Valuation Balance Sheet as on 31.03.2025

Liabilities	Amount (₹)	Assets	Amount (₹)
To Net Liability as per Actuarial Valuation	21,25,000	By Life Insurance Fund	25,00,000
To Surplus (b/f)	3,75,000		
	25,00,000		**25,00,000**

(ii) Calculation of Net profits made by Avni life insurance company for two-year period:

Particulars	Amount (₹)
(a) Surplus as per valuation balance sheet	3,75,000
(b) Add: Interim Bonus paid during the two year period	40,000
(c) Total profit made during the valuation period (a + b)	4,15,000
(d) Less: Amount to be carried forward to next year	(75,000)
(e) Profit available for distribution (c – d)	3,40,000

(iii) Statement showing distribution of Profit:

Particulars	Amount (₹)	Amount (₹)
(a) To Policy Holders:		
95% of profit (3,40,000 × 95%)	3,23,000	
Less: interim Bonus distributed to policy holders	(40,000)	
Amount Payable to policy holders (3,23,000 – 40,000)		2,83,000
(b) To Shareholders (3,40,000 × 5%)		17,000
(c) Total profit distributed now (a + b)		3,00,000

(5) (a) The following information is provided by Greenco Ltd, Calculate Diluted Earnings per share.

Particulars	Amount (₹ in Lakhs)
Net profit for the year	100
Number of equity shares outstanding	20
Basic Earnings per share	5.00
Number of 11% convertible debentures of ₹100 each = 25,000	
Each debenture is convertible into 8 equity shares	
Interest expense for the current year	2.75
Tax saving relating to interest expense (30%)	0.825

[7]

(b) **The following relevant items of cash flow statement of Gems Ltd. Prepared for the year 31st March,2025:**

Particulars	Amount (₹)	Amount (₹)
Net profit		**75,00,000**
Add: Sale of investment		**87,50,000**
Depreciation of Assets		**13,75,000**
Issue of preference shares		**11,25,000**
Loan raised		**5,62,500**
Decrease in stock		**15,00,000**
		2,08,12,500
Less:		
Purchase of Fixed Assets	**81,25,000**	
Decrease in Creditors	**7,50,000**	
Increase in Debtors	**10,00,000**	
Exchange gain	**10,00,000**	
Profit on sale of investments	**15,00,000**	
Redemption of debentures	**7,12,500**	
Dividend paid	**1,75,000**	
Interest paid	**1,18,125**	**(1,33,80,625)**
		74,31,875
Add: Opening Cash and Cash Equivalent		**15,42,625**
Closing Cash and Cash equivalent		**89,74,500**

Redraft and reconstruct the cash flow statement of Gems Ltd. in proper order for the year ended 31st March,2025 in accordance with AS-3 using indirect method. **[7]**

Answer:

(a) **Calculation of Diluted Earnings per Share:**

Particulars	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)
(a) Net profit attributable to equity shares		100
(b) Add: Savings in interest expense on conversion of debentures 2.75× (1-0.30)		1.925
(c) Adjusted profit attributable to equity shares after conversion (a + b)		101.925
(d) Total Number of Equity shares outstanding:		
Original number of equity shares outstanding	20	
Add: Equity shares issued on conversion of convertible debentures (0.25 Deb × 8 shares per debenture)	2	22
(e) Diluted Earnings Per Share		4.63 Per Share

(b)

Cash flow statement for the year ended 31.03.2025 – Indirect Method

Particulars	Amount (₹)	Amount (₹)
A. Cash Flow from Operating Activities:		
Net profit before Tax and Extra ordinary items:		75,00,000
Adjustment for:		
Depreciation	13,75,000	
Profit on Sale of investment	(15,00,000)	
Foreign Exchange gain	(10,00,000)	
Operating Profit before Working Capital Changes		63,75,000
Working Capital Adjustment:		
Decrease in stock	15,00,000	
Decrease in Creditors	(7,50,000)	
Increase in Debtors	(10,00,000)	17,50,000
Cash from operation		61,25,000
Tax paid		Nil
Net Cash from operating Activities		61,25,000
B. Cash Flows from Investing Activities		
Sale of investments	87,50,000	
Purchase of Fixed Assets	(81,25,000)	
Net Cash from Investing Activities		6,25,000
C. Cash Flows from Financing Activities		
Loan raised	5,62,500	
Issue of Preference shares	11,25,000	
Redemption of Debentures	(7,12,500)	
Dividend paid	(1,75,000)	
Interest paid	(1,18,125)	
Net Cash from Financing Activities		6,81,875
D. Net Increase in Cash and Cash Equivalents(A+ B + C)		74,31,875
E. Add: Cash and Cash equivalents at the Beginning of the period		15,42,625
F. Cash and Cash equivalents at the End of the period		89,74,500

(6) (a) Distinguish between statutory audit and non-statutory audit. **[7]**

(b) Discuss the provisions of Companies Act, 2013 and SEBI Regulations relating to the applicability and conduct of Secretarial Audit. **[7]**

Answer:

(a)

Sl No.	Points of Distinction	Statutory Audit	Non-statutory Audit
1.	Legal compulsion	It is compulsory.	It is voluntary.
2.	Scope	The relevant statute or law determines the scope of work.	The employer or partners determine the scope of work.
3.	Qualification of auditor	The academic or professional qualification is prescribed for the auditor.	The auditor need not possess any academic or professional qualifications.
4.	Powers, rights and duties of an auditor	The statute dictates the powers, rights and duties of an auditor.	The agreement between an auditor and firm decides these matters.
5.	Independence	The auditor has independence in status and in mental attitude.	The auditor does not enjoy such independence.
6.	Auditor's liability	The auditor is liable for negligence under the Common Law and for misfeasance under the relevant statute governing the audit.	The auditor is liable for negligence only under the Common Law.
7.	Publication of audit report	The audit report is published for the public.	The audit report is made known to the employers or partners.

(b) Applicability and Conduct of Secretarial Audit:

(i) The Companies Act 2013: As per the provision of Section 204(1) of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014:

1. Every listed company;
2. Every public company having a paid-up share capital of 50 crore rupees or more; or
3. Every public company having a turnover of 250 crore rupees or more; or
4. Every company having outstanding loans or borrowings from banks or public financial institutions of 100crore rupees or more. - is required to annex with its Board's Report made in terms of Section 134(3) of the Companies Act, 2013, a Secretarial Audit Report, given by a Company Secretary in practice, in Form No. MR-3.

As per Section 204(2), it shall be the duty of the company to give all assistance and facilities to the company secretary in practice, for auditing the secretarial and related records of the company.
Moreover, Section 204(4) further provides that if a company or any officer of the company or the company secretary in practice, contravenes the provisions of this section, the company, every officer of the company or the company secretary in practice, who is in default, shall be liable to a penalty of two lakh rupees.

(ii) SEBI Regulations: As per Regulation 24A of the SEBI(LODR) Regulations, 2015, every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity.

In addition to the above, every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within sixty days from end of each financial year. (Amended by the SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021 w.e.f. 5.5.2021).

(7) (a) Analyse the key distinctions between an audit report and an audit certificate? [7]

(b) Discuss the functions and duties of the National Financial Reporting Authority (NFRA) of the Companies Act, 2013. [7]

Answer:

(a) Audit certificates are fundamentally different from audit reports, though they are issued by the same auditor. The following are the differences between an audit report and an audit certificate**.**

Sl. No.	Points of Distinction	Auditor's Report	Auditor's Certificate
1.	Definition	An audit report is a document written in a standard format through which the auditor expresses his opinion regarding the reliability and correctness of an entity's financial statements.	An auditor's certificate is a written confirmation of the accuracy of the facts stated therein.
2.	Nature	It is an expression of opinion about the financial statements.	It is a confirmation of correctness and accuracy about some matters.
3.	Basis of audit	The report is based on assumptions and estimations	The certificate is based on actual figures and facts.
4.	Scope	The scope of the report is large.	Its scope is limited.
5.	Advice	In audit report, there is a scope of giving constructive advice to the company.	No scope of constructive advice exists in the case of the certificate.
6.	Basis	Audit report is based on facts, assumptions and estimations.	Audit certificate is based on actual figures.
7.	Guarantee	Audit report is an opinion by the auditor and does not guarantee the accuracy of the financial statements	Audit certificate is a formal statement by the auditors which guarantee the accuracy of the facts stated therein.
8.	Time of issue	The report is submitted to the appointing authority only after the audit is complete.	Certificates are issued as and when required.

9.	Liability of auditor	As a report is merely an opinion, if it is not correct, the auditor may not be held responsible, unless he is found to be negligent to his duty.	In case of the wrong certificate, the auditor will be held responsible.
10.	Format	Audit report has to be presented in prescribed format.	Audit certificate is not required to be presented in any standard format.

(b) As per Section 132(2) of the Companies Act, 2013, the duties of the NFRA are to:

(i) Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government;

(ii) Monitor and enforce compliance with accounting standards and auditing standards;

(iii) Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service;

(iv) Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

Sub Rule (1) of Rule 4 of the NFRA Rules, 2018, provides that the Authority shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under Rule 3 by establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors.

(8) (a) Discuss the procedures you would follow to audit the inventory of a hospital pharmacy. [7]

(b) Discuss the provisions of the Companies Act, 2013 regarding appointment of first Auditor of a company. [7]

Answer:

(a) Healthcare Organisations primarily include hospitals and nursing homes. They are established to provide medical services to the public. There may be hospitals run and funded by the Government or local authorities or by any charitable trust. These are generally non-profit seeking organisations. However, hospitals may also be established by private sector organisations. These are profit seeking organisations (and are popularly known as private nursing homes). Since healthcare organisations largely differs from other commercial organisations on account of their business processes, an auditor needs to prepare a sound audit plan to cover typical aspects of these organisations. Accordingly, the audit procedure must highlight the following steps:

(i) Understand the Constitution: Study all the relevant documents to determine its nature and ownership structure (i.e., trust, partnership or company). Study the trust deed (in case of trust), partnership agreement (in case of partnership business) and articles and memorandum of association (in case of a company) and accordingly identify the rules and regulation relating to its management and process of preparation of accounts.

(ii) Assess the Internal Control System: Evaluate the internal control system associated with acquisition and maintenance of assets, authorisation of transactions, etc. and determine the scope of the audit work.

(iii) **Consult the Minute Book**: Carefully examine the notices and minutes of the meeting of Board of Directors, Managing Committee and other committees (such as purchase committee) and identify the decisions which may affect the accounting. Confirm that the decisions undertaken with respect to operation of bank accounts, approval of expenditure, etc. have been duly complied with.

(iv) **Verify the Receipts Related Transactions:**

- In case of a hospital run by state government or any local authority, vouch the grants received from the state or the local authority based on Govt. Orders, sanction letters, counterfoil of receipts.
- Vouch collection from patients admitted to the paying beds based on the Patient Admission Registrar and counterfoil of receipts/ copies of bills.
- Vouch collection from various pathological tests based on the counterfoils of receipts/ copies of bills.
- Vouch donations based on the counterfoils of receipts.
- In case hospitals having guest houses, assess the collections based on the register, counterfoils of receipts and accounting entries.
- 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 therefrom is not utilized for any other purposes.

(v) **Verify the Payments Related Transactions:**

- Verify that all capital expenditure associated with machineries, furniture, vehicle, etc. is approved and supported by documentary evidences such as counterfoils cheque, invoices, tenders, etc.
- Vouch the salary paid to staff based on attendance register, payroll, etc. Examine that the appointment of casual staff and payment of their salaries are duly authorized.
- Verify doctor’s remuneration should be verified based on the list of visits and operations performed.
- Verify the purchases of pathological test kits, X-ray plate and other consumables based on tenders, orders placed and invoices received.
- Vouch all other overhead expenses like telephone bills, electricity bills, fuel bills, etc. based on appropriate documentary evidences.

(vi) **Verification of Assets and Liabilities:**

- Verify the stock registers of medicines, food items and other equipment and check their valuations.
- Conduct physical verification of fixed assets and investments based on Fixed Asset Register and Investment Register respectively.
- Check the adequacy of depreciated and its accounting.
- Collect the list of all liabilities and verify them based on the contracts and arrear bills.

(vii) Verification of Financial Statements:

- Verify that the financial statements have been prepared in the manner and format appropriate to the nature (profit seeking or non-profit seeking) and ownership structure of the organisation.

(b) Provisions Relating to Appointment of First Auditor

(I) In case of a company other than a Government Company [Section 139(6)]

- The first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within thirty days from the date of registration of the company.
- In the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall appoint such auditor within ninety days at an extraordinary general meeting.
- The auditor, so appointed, shall hold office till the conclusion of the first annual general meeting.

(II) In case of a Government Company [Section 139(7)]

- In the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller and Auditor General of India within sixty days from the date of registration of the company.
- In case the Comptroller and Auditor-General of India does not appoint such auditor within the aforesaid period, the Board of Directors of the company shall appoint such auditor within the next thirty days.
- Further, in the case of failure of the Board to appoint such auditor within the next thirty days, it shall inform the members of the company who shall appoint such auditor within sixty days at an extraordinary general meeting.
- The auditor, so appointed, shall hold office till the conclusion of the first annual general meeting.

Note: For the aforesaid purpose 'Government Company' shall mean a company in which not less than 51% of the paid-up share capital is held by the Central Government or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government Company.