Paper 12- Company Accounts & Audit

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Full Marks: 100 **Time allowed: 3 hours**

Section – A (Company Accounts)

Answer Question No. 1 and any three from Question Nos. 2,3,4 and 5.

(i)(a) Choose the correct answer from the given four alternatives: [6x1=6]

(i) The part of the called up capital which is offered and is actually paid by the members is known as ______________.

(A) Authorised Capital
(B) Paid-up Capital
(C) Calls-in arrear
(D) None of the above

(ii) Which of the following is not a part of financial statement

(A) Contingent Liabilities
(B) Balance Sheet
(C) Profit and Loss Account
(D) Both (A) and (C)

(iii) Allotment of Securities by Company is covered under section ____ of Companies Act,2013

(A) Sec 71
(B) Sec 70
(C) Sec 39
(D) Sec 33

(iv) Investment made in 14% Debenture of Mitra Ltd. should be disclosed as part of _________ ___________.

(A) Non-Current Investments
(B) Trade Receivables
(C) Long term borrowings
(D) None of the above

(v) Cash receipts from sale of land by a H Ltd. is a/an

(A) Operating Activity
(B) Investing Activity
(C) Financing Activity
(D) None of the above

(vi) Which of the following is not a part of Inventories:

(A) Raw materials;
(B) Work In Progress;
(C) Finished Goods;
(D) None of the above.

(b) Match the following: **[4×1=4]**

	Column 'A'		Column 'B'
1.	Section 39	A.	Issue of Debentures
2.	Section 52	B.	Issue of Application Forms for Securities
3.	Section 33	C.	Allotment of Securities by Company
4.	Section 71	D.	Application of Premium Account

Answer:

	Column 'A'		Column 'B'
1.	Section 39	C.	Allotment of Securities by Company
2.	Section 52	D.	Application of Premium Account
3.	Section 33	B.	Issue of Application Forms for Securities
4.	Section 71	A.	Issue of Debentures

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

(i) A bonus share is a free share issued without any consideration to an existing shareholder in the ratio of number of shares already held.

(ii) A company can directly or indirectly purchase its own shares or other specified securities through any of subsidiary company;

(iii) If a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares.

(iv) Preference Shares carries a fixed rate of interest.

Answer:

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

Answer any three questions out of the following four questions **[3×12=36]**

2. (a) Vyash Ltd. issued at par 4,00,000 Equity shares of ₹10 each payable ₹2.50 on application; ₹ 3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Ms. Gupta who held 40,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 4,000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Ms. Gupta. Interest should be received @ 10% p.a. on calls-in-arrears and interest should be paid @ 12% p.a. on calls in Advance (as per Articles of the company).

You are required to prepare journal entries to record these transactions. **[8]**

Answer:

Book of Vyash Ltd.

Journal

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c To Equity Share Application A/c (Money received on applications for 4,00,000 shares @₹2.50 per share)	Dr.		10,00,000	 10,00,000
	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 4,00,000 shares to share capital)	Dr.		10,00,000	 10,00,000
	Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 4,00,000 shares @ ₹ 3 per share)	Dr.		12,00,000	 12,00,000
	Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.		12,00,000	 12,00,000
	Equity Share First Call A/c To Equity Share Capital A/c (Being first call made due on 4,00,000 shares at ₹2 per share)	Dr.		8,00,000	 8,00,000
	Bank A/c To Equity Share First Call A/c To Calls in Advance A/c (Being first call money received along with calls in advance on 40,000 shares at ₹2.50 per share)	Dr.		9,00,000	 8,00,000 1,00,000
	Equity Share Final Call A/c To Equity Share capital A/c (Being final call made due on 4,00,000 shares at ₹2.50 each)	Dr.		10,00,000	 10,00,000
	Bank A/c Calls in Advance A/c Calls in Arrears A/c To Equity Share Final Call A/c (Being final call received for 3,56,000 shares and calls in advance for 40,000 shares adjusted)	Dr. Dr. Dr.		8,90,000 1,00,000 10,000	 10,00,000
	Interest on Calls in Advance A/c To shareholders A/c (Being interest made due on calls in advance of ₹1,00,000 at the rate of 12% p.a.)	Dr.		3,000	 3,000
	Shareholders A/c To Bank A/c (Being payment of Interest made to shareholders)	Dr.		3,000	 3,000
	Shareholders A/c To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)	Dr.		166.68	 166.68

	Bank A/c To Calls in Arrears A/c To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)	Dr.		10,166.68	 10,000 166.68

(b) Tip-Top Ltd. borrowed US $ 6,00,000 on 31.12.2015 which will be repaid (settled) as on 30.6.2016. The company prepares its financial statements ending on 31.3.2016.

Rate of exchange between reporting currency (Rupee) and foreign currency (US $) on different dates are as under:

31.12.2015	**1 US $ = ₹ 64.00**
31.03.2016	**1 US $ = ₹ 64.50**
30.06.2016	**1 US $ = ₹ 64.75**

State the aspects to be noted while preparing the financial statements due to the applicable AS. How should the difference in exchange rates be treated? [4]

Answer:

Treatment of loans obtained in foreign currency:

As per AS 11 "Changes in Foreign Exchange Rates", a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying the foreign currency exchange rate between the reporting currency and the foreign currency at the date of the transaction. Accordingly, on 31.12.2015, borrowings will be recorded at ₹ 3,84,00,000 (i.e. $ 6,00,000 x ₹ 64.00)

As per AS 11, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.03.2016, borrowings (monetary items) will be recorded at ₹ 3,87,00,000 (i.e. $ 6,00,000 x ₹ 64.50).

The exchange difference of ₹ 3,00,000 is arising because the transaction has been reported at different rate (₹ 64.50 = 1 US $) from the rate initially recorded(i.e. ₹64 = 1 US $). This difference is taken to P&L Account.

When the loan is closed, the liability will be higher by ₹1,50,000 i.e. [(₹64.75–₹64.50)×$6,00,000. The exchange difference of ₹ 1,50,000 is arising because the transaction has been settled at an exchange rate (₹ 64.75 = 1 US $) different from the rate *at which reported in the last financial statement (₹ 64.50 = US $). This difference is also* taken to P&L Account.

3. (a) Calculate depreciation upto 2013-14 as per 2009 regulations from the following information of Ujjwal Power Generation Project

Date of commercial operation/Work Completed Date	**11-Jan-1996**
Beginning of Current year	**1-Apr-2011**
Useful life	**35 years**

		(Figures in ₹ Crores)
1.	**Capital Cost at beginning of the year 2011-12**	**222.00**
2.	**Additional Capitalisation during the year: 2012-13**	**10.56**
	2013-14	**29.44**
3.	**Value of Freehold Land**	**12.00**
4.	**Depreciation recovered up to 2009-10**	**48.60**
5.	**Depreciation recovered in 2010-11**	**5.40**

Note: Capital Cost and Accumulated Depreciation at the beginning of the year are as per tariff order FY 2011-12. [6]

Answer:

Name of the Power Station: Ujjwal Power Generation Project

Date of commercial operation/Work Completed Date: 11-Jan-1996

Beginning of Current year: 1-Apr-2011
Useful life: 35 years
Remaining Useful life: 20 years

Statement showing the Calculation of Depreciation

(Figures in ₹ Crores)

Particulars	2011-12	2012-13	2013-14
A. Opening Capital Cost	222.00	222.00	232.56
B. Additional Capital Cost	0.00	10.56	29.44
C Closing Capital Cost	222.00	232.56	262.00
D. Average Capital Cost [(A + C)/2]	222.00	227.28	247.28
E. Less: Cost of Freehold Land	12.00	12.00	12.00
F. Average Capital Cost for Depreciation (D - E)	210.00	215.28	235.28
G. Depreciable value (90% of F)	189.00	193.75	211.75
H. Depreciation recovered upto prev. year *(48.6 + 5.4)	*54.00	60.75	67.75
I. Balance Depreciation to be recovered (G - H)	135.00	133.00	144
J. Balance useful life out of 35 years	20.00	19.00	18.00
K. Yearly depreciation from 2011-12 (I/J)	6.75	7.00	8.00
L. Depreciation recovered upto the year (H + K)	60.75	67.75	75.75

(b) From the following figures of Well Life assurance Co. Ltd. prepare a Valuation Balance Sheet and Profit Distribution Statement for the year ended 31st March 2016. Also pass necessary journal entries to record the above transactions with narrations:

Particulars	₹ (in lakhs)
Balance of Life Assurance Fund as on 1.4.2015	**334.30**
Interim bonus paid in the valuation period	**50.00**
Balance of Revenue Account for the year ended 31.3.2016	**480.00**
Net Liability as per valueer's Certificates as on 31.3.2016	**330.00**

The company declares a revesionary bonus of ₹185 per ₹1,000 and gave the policyholders an option to take bonus in cash ₹105 per ₹1,000. Total business conducted by the company was ₹1,200 lakhs. The company issued profit policy only, 3/5 th of the policyholders in value opted for cash bonus. [6]

Answer:

In the Books of Well Assurance Co. Ltd.

Valuation Balance Sheet As at 31st March 2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Net Liabilities as per Actuarial Valuation Surplus/Net Profit	3,30,00,000 1,50,00,000	Life Insurance Fund	4,80,00,000
	4,80,00,000		4,80,00,000

Distribution Statement of Surplus	₹
Surplus/ Net Profit Add: Interim Bonus Paid	1,50,00,000 50,00,000
	2,00,00,000

Policyholders' shares @95% of ₹2,00,00,000 Less: Interim Bonus paid	1,90,00,000 50,00,000
	1,40,00,000

Shareholders' Share @ 5% of ₹2,00,00,000	10,00,000

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
?	Life Assurance Fund A/c Dr. To, Profit and Loss A/c (Surplus/Net Profit transferred to P&L A/c as per Valuation Balance Sheet)		1,50,00,000	1,50,00,000
	Profit and Loss A/c Dr. To, Bonus (in cash) Payable A/c (Bonus paid in cash)		75,60,000	75,60,000
	Profit and Loss A/c Dr. To, Life Assurance Fund A/c (Revisionary Bonus payable transferred to Life assurance Fund)		88,80,000	88,80,000

Workings:

1. Bonus payable in cash
@ ₹105 per ₹100
On 7,20,00,000 (₹12,00,00,000 × $\frac{3}{5}$)
= ₹ $\frac{7,20,00,000}{1,000} \times 105$
= ₹75,60,000

2. Revisionary Bonus
@ ₹185 per ₹1,000
On 4,80,00,000 (₹12,00,00,000 × $\frac{2}{5}$)
= ₹ $\frac{4,80,00,000}{1,000} \times 185$

= ₹88,80,000

4. From the following particulars furnished by First Class Ltd., prepare the Balance Sheet as on 31st March 2016 as required by Part I, Schedule III of the Companies Act, 2013

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each) Call in Arrears		5,000	50,00,000
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	3,00,843		
Finished Goods	10,00,000	13,00,843	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,84,343
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were: Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The balance of ₹7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer ₹ 20,000 to general reserve is proposed by Board of directors.

(vii) Board of directors has declared and paid dividend of 5% on the paid up capital.[12]

Answer:

First Class Ltd. Balance Sheet as on 31st March, 2016

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		

a Share capital	**1**	49,95,000
b Reserves and Surplus	**2**	12,33,750
2 Non-current liabilities		
Long-term borrowings	**3**	13,17,500
3 Current liabilities		
a Trade Payables		8,00,000
b Other current liabilities	**4**	37,500
c Short-term provisions	**5**	6,40,000
d Short-term borrowings		2,00,000
Total		**92,23,750**
1 Non-current assets		
Fixed assets		
Tangible assets	**6**	56,25,000
2 Current assets		
a Inventories	**7**	12,50,000
b Trade receivables	**8**	10,00,000
c Cash and bank balances	**9**	11,35,250
d Short-term loans and advances		2,13,500
Total		**92,23,750**

Notes to Accounts:

1. Share Capital	₹	₹
Equity Share Capital Issued & Subscribed & Called Up 50,000 Equity Shares of ₹ 100 Each (of the Above 10,000 shares have been issued for Consideration other than cash)	50,00,000	
Less: Calls in arrears	(5,000)	49,95,000
Total		**49,95,000**
2. Reserves and Surplus		
General Reserve Add: current year transfer	10,50,000 20,000	10,70,000
Profit & Loss balance Profit for the year *Less:* Appropriations: Transfer to General reserve Dividend Payable (Refer WN)	4,33,500 (20,000) (2,49,750)	1,63,750
Total		**12,33,750**
3. Long-term borrowings		
Secured Term Loan State Financial Corporation Loan (7,50,000 - 37,500) (Secured by hypothecation of Plant and Machinery) Unsecured Loan		7,12,500 6,05,000
Total		**13,17,500**
4. Other current liabilities		
Interest accrued but not due on loans (SFC)		37,500
Total		**37,500**
5. Short-term provisions		
Provision for taxation		**6,40,000**
6. Tangible Assets		
Land and Building	30,00,000	

Less: Depreciation	(2,50,000)	27,50,000
Plant & Machinery	35,00,000	
Less: Depreciation	(8,75,000)	26,25,000
Furniture and Fittings	3,12,500	
Less: Depreciation	(62,500)	2,50,000
Total		**56,25,000**
7. Inventories		
Raw Materials	2,50,000	
Finished goods	10,00,000	
Total		**12,50,000**
8. Trade receivables		
Outstanding for a period exceeding six months	2,60,000	
Other Amounts	7,40,000	
Total		**10,00,000**
9. Cash and cash equivalents		
Cash at bank		
with Scheduled Banks	12,25,000	
with others (Omega Bank Ltd.)	10,000	12,35,000
Cash in hand		1,50,000
Less: Dividend paid		2,49,750
Total		**11,35,250**

Working Note:

Calculation of Grossing up of dividend:

Particulars	₹
Dividend distributed by Alpha Ltd. (5% of 49,95,000)	2,49,750

5. Write short note (any three): **[3×4=12]**

(a) Differences between Shares and Debentures;

(b) Reportable Segments;

(c) Cash and Cash Equivalent;

(d) Surrender Value of a Life Insurance Policy.

Answer:

(a) Differences between Shares and Debentures

	Shares	**Debentures**
Definition	An instrument to acknowledge the ownership of the company.	An instrument to acknowledge the creditors of the company.
Status	A shareholder is the owner and a member of the company.	A debenture holder is not a member but a creditor.
Return	A shareholder may receive dividend only when a company makes a profit.	A debenture holder has a right to interest even if the company does not make profit.
Rate of return	Dividend rate can vary depending on the profit position.	Debenture carries a fixed rate of interest.

Accounting treatment	Dividend is given out of appropriable profit and not chargeable to Profit and Loss account.	Debenture interest is chargeable to Profit and Loss account.
Redemption	In the case of shares, the concept of redemption does not apply. However as per the recent change in the companies Act, a company can buy back shares in accordance with the provisions in the Act.	Debentures are normally redeemable although a company can issue perpetual debentures
Voting rights	A shareholder has voting rights.	A debenture holder cannot have voting rights.
Status at the time of winding up	At the time of winding up share holders have the least priority regarding the return of amount due to them.	At the time of winding up debenture holders have a priority over the share holders regarding the return of amount due to them.

(b) Reportable Segments

A reportable segment is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Statement.

A business segment or geographical segment should be identified as a reportable segment if:

(a) its revenue from sales to external customers and from transactions with other segments is 10 per cent or more of the total revenue, external and internal, of all segments; or

(b) its segment result, whether profit or loss, is 10 per cent or more of –
   (i) the combined result of all segments in profit, or
   (ii) the combined result of all segments in loss, whichever is greater in absolute amount; or

(c) its segment assets are 10 per cent or more of the total assets of all segments.

A business segment or a geographical segment which is not a reportable segment, may be designated as a reportable segment despite its size at the discretion of the management of the enterprise. If that segment is not designated as a reportable segment, it should be included as an unallocated reconciling item.

If total external revenue attributable to reportable segments constitutes less than 75 per cent of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 per cent, until at least 75 per cent of total enterprise revenue is included in reportable segments.

(c) Cash and Cash Equivalent:

A cash flow statement explains the reasons for change in the cash and cash equivalent between two financial statement dates. Before we introduce the technique of cash flow analysis, let us learn the meaning of the term 'cash and cash equivalent'.

Cash means cash in hand and balance of foreign currency. Cash equivalent implies bank balance and other risk-free short term investments, and advances which are readily encashable. Cash equivalent means short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. An investment of short maturity, say three months or less from the date of acquisition is generally considered as cash equivalent. Equity investments are not considered as cash equivalent because of high market risk. Investments in call money market, money market mutual funds, repo transactions, badla transactions, etc., are usually classified as cash equivalents.

(d) Surrender Value of a Life Insurance Policy

In the case of life policy, the policy normally has value only when it matures. But to facilitate the promotion of business, insurance companies assign value to the policy on the basis of the premiums paid. Insurance companies will be prepared to pay such value on the surrender of the policy by a needy policy holder desiring to realize the policy. Therefore the value is referred to as 'surrender value'. Surrender value is usually nil until at least two annual premiums are paid. Amount paid as surrender value is an expenditure and is similar to claims paid.

Section – B (Auditing)

Answer Question No. 6 and any three from Question Nos. 7,8,9 and 10.

6. (a) Choose the correct answer from the given four alternatives: **[6x1=6]**

(i) An audit committee should have ______ directors.
(A) 3
(B) 2
(C) 1
(D) 4

(ii) Appointment of auditor for government company is done by
(A) BOD
(B) Audit committee
(C) Managing Director
(D) CAG

(iii) An in depth examination to detect a suspected fraud is termed as ______________.
(A) Cost Audit
(B) Bank Audit
(C) Investigation
(D) None of the above

(iv) ____________ Audit is conducted at the end of the accounting year, after the books of accounts have been closed.
(A) Interim
(B) Annual
(C) Investigation
(D) None of the above

(v) Form CRA -_________ is related to appointment of Cost Auditor.
(A) 1
(B) **2**
(C) 3
(D) 4

(vi) Each of the three parties involved in an audit _____________ plays a role that contributes to its success.
(A) the client, the auditor, and the auditeer
(B) the client, the auditor, and the audite
(C) the client, the moderator, and the auditee
(D) **the client, the auditor, and the auditee**

(b) Match the following: [4×1=4]

	Column 'A'		Column 'B'
1.	**Functional Classification of Audit**	A.	**Disclaimer of Opinion**
2.	**Unable to form an overall conclusion on Financial Statement**	B.	**Comptroller and Auditor General of India**
3.	**Audit Report with reservations**	C.	**External and Internal Audit**
4.	**The authority for Govt. Audit**	D.	**Qualified Audit Report**

Answer:

	Column 'A'		Column 'B'
1.	**Functional Classification of Audit**	C	**External and Internal Audit**
2.	Unable to form an overall conclusion on Financial Statement	A	Disclaimer of Opinion
3.	Audit Report with reservations	D	Qualified Audit Report
4.	The authority for Govt. Audit	B	Comptroller and Auditor General of India

(c) State whether the following statements are True (or) False. [4×1=4]

(i) Internal audit, in its initial stages, was developed as a branch of Operational auditing.
(ii) An auditor is not insurer.
(iii) The first auditor of a company is appointed by the shareholders of the company at the general meeting.
(iv) Balance sheet audit is generally synonymous with statutory audit.

Answer:

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

Answer any three questions out of the following four questions [3×12=36]

7. (a) Compare external and internal audit. [7]

Answer:

The major points of distinction between the two are as follows:

(i) The external auditors are appointed by the owners of the organisation, e.g., shareholders in case of a company. When external auditors are appointed under a particular statue, they are called as statutory auditors. But internal auditors are appointed by the management of the organisation. The internal auditors may be appointed on contractual basis or they may be appointed as employees of the organisation.

(ii) The scope of work of an external auditor is determined by the particular statue under which they are appointed but the internal auditors have to work within the scope defined the management which generally includes review and appraisal of accounting, financial and administrative controls.

(iii) The main concern for an external auditor is to collect the adequate and reliable evidence to support his opinion as to the truth and fairness of the representations made in the financial statements. The internal auditors, on the other hand, are concerned with the compliance of various policies, rules and procedures of the enterprise, compliance with applicable laws and generally accepted accounting principles.

(iv) The external auditors are directly responsible to the owners and in some cases to the third parties but the internal auditors do not have any freedom to report to the outsiders.

It may be noted that unlike external auditors, internal auditors are generally not considered as independent of the management. But one of the basic philosophies of audit is that the auditor must be independent. Thus, in order to derive benefit from audit in its right earnest even internal auditor must be independent to the extent practicable.

(b) Discuss 'Government Audit'. **[5]**

Answer:

Meaning:

United Nations (UN)Handbook on Government Auditing in Developing Countries states that "Government auditing is the objective, systematic, professional and independent examination of financial, administrative and other operations of a public entity for the purpose of evaluating and verifying them, presenting a report containing comments, conclusions and recommendations and expressing the appropriate professional opinion in respect of financial statements." Authorization:

The Comptroller & Auditor General (CAG) of India is the Supreme Audit Institution.

Types of Government Audit —

(a) Transaction audit

i. Expenditure Audit
ii. Receipts Audit.

(b) Efficiency cum Performance Audit:

Expenditure Audit: The basic standards set for audit of expenditure are to ensure that there is provision of funds authorized by competent authority fixing the limits within which expenditure can be incurred. Some standards are briefly explained below;

i. Audit against Rules & Orders: It is also known as Regularity Audit. Under this, the auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and orders framed by the competent authority.
ii. Audit of Sanctions: The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorizing such expenditure. In case expenditure exceeds the sanctioned limit, objection is raised.
iii. Audit against Provision of Funds: It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the sanctioned amount as well as examine whether the money has been spent for the specified purpose.
iv. Audit of financial propriety: The auditor has to ensure that the expenditure incurred are with respect to the recognized standards of financial propriety i.e. quantity, quality, morality and ethics.

8. (a) Discuss the Punishment under section 147 of the Companies Act,2013. [8]

Answer:

Punishment for Contravention [Section 147]

(1) If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees, or with both.
(2) If an auditor of a company contravenes any of the provisions of section 139, section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees or four times the remuneration of the auditor, whichever is less. Provided that if an auditor has contravened such provisions knowingly or willfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees or eight times the remuneration of the auditor, which is less.
(3) Where an auditor has been convicted under sub-section (2), he shall be liable to —
  (i) refund the remuneration received by him to the company; and
  (ii) pay for damages to the company, statutory bodies or authorities or to the members of creditors of company for loss arising out of incorrect or misleading statements of particulars made in his audit report.
(4) The Central Government shall, by notification, specify any statutory body or authority or an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of sub- section (3) and such body, authority or officer shall after payment of damages to such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.
(5) Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil or criminal as provided in this Act or in any other law for the time being in force, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally. Provided that in case

of criminal liability of an audit firm, in respect of liability other than firms, the concerned. Partner or partners, who acted in a fraudulent manner or abetted or as the case may be, colluded in any fraud, shall only be liable.

(b) Discuss – ' appointment and tenure of First Auditor of a Company'. [4]

Answer:

First auditor of the company, other than a Government company, shall be appointed

- by the BOD within 30 days from the date of registration of the company;
- If BOD fails to appoint, by the member of the company within 90 days at an extraordinary general meeting appoint the first auditor;
- In case of Government company, first auditor shall be appointed by CAG within 60 days from the date of registration;
- If CAG fails to appoint, by the BOD of the company within next 30 days;
- If again BOD fails to appoint the first auditor of the company, by the member of the company within 60 days at an extraordinary general meeting;
- Tenure of the first auditor of the company in both the above cases till the conclusion of the first annual general meeting;

9. (a) Procedure of fixing Remuneration of a Cost Auditor – discuss. [5]

Answer:

(a) 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.
It states as follows:
Remuneration of the Cost Auditor: For the purpose of sub-section (3) of section 148 -

(b) in the case of companies which are required to constitute an audit committee –

- **(i)** 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;
- **(ii)** 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;

(c) 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) Discuss the purposes to issue an Audit certificate. [7]

Answer:

Sometimes apart from an audit report for general use, an auditor is often called upon to give a certificate for special purpose. The certificate should include the following: —

i. Auditor should see that there is a suitable declaration by the management about the subject matter.

ii. Auditor should give the certificate on his letter head or on stationary carrying his name and address to avoid misunderstanding.
iii. Auditor should clearly state his limitations and indicate the extent to which he has relied upon a technical expert if any.
iv. Auditor should indicate the specific record covered by the certificate.
v. Auditor should mention the manner in which the audit was conducted.
vi. Auditor should indicate in the certificate if he has made certain fundamental assumptions. Auditor should make a reference to the information and explanations obtained. Auditor should give clear title to it, indicating whether it is a report or a certificate.
vii. Auditor should mention whether he has used any general purpose statement like Profit & Loss Account for his investigation and also, state whether that general purpose statement has been audited by other auditors.
viii. Auditor should be careful while interpreting any law related matter, he should clearly mention that he is expressing merely his own opinion.
ix. Auditor should see that the certificate should be self contained documents. Auditor should clearly mention the responsibility assumed by him.
x. Auditor should, if he has referred the audited statements, clearly mention that the figures are used from the audited statements and relied upon.
xi. Auditor should address the certificate to the client or the Public Authority or the person requiring it as the case may be. In appropriate circumstances it may be issued by using the words as "to whom so ever it may concern".

10. Write short note (any three): [3×4=12]

(a) Joint Audit and its advantages;
(b) Features of inventories that have an impact on the related audit procedures;
(c) Audit of Municipalities and Panchayats (Local Bodies);
(d) Interest on Debentures and its audit.

Answer:

Answer:

(a) Joint Audit and its advantages

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 auditors are appointed.

Advantages of Joint Audit:
i. Lower workload ;
ii. Timely completion of work;
iii. Sharing of expertise ;
iv. Improved quality of services;
v. Healthy competition ;
vi. Quality of performance.

(b) 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.
iii. 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.
iv. 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.
v. 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.
vi. 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.
vii. Valuation of inventories may involve varying degrees of estimation, including expert opinions, e.g., in the case of jewelry.

(c) Audit of Municipalities and Panchayats (Local Bodies)

The major objective of audit of Municipalities and Panchayats are enumerated below;

(i) To ensure on the fairness and correctness of contents in the Financial Statement
(ii) To report on adequacy of Internal control
(iii) To ensure value of money is fully received on amount spent.
(iv) To detect the frauds and errors.

The following points are to be considered necessary for carrying on audit of Municipalities and panchayats (Local Bodies);

(i) To ensure that the expediters incurred conform to the relevant provision of the law and is in accordance with the financial Rules and regulation formed by the compliant authority.
(ii) To encase that sanction is accorded by the competent authority either special or general.
(iii) To encase that there is provision of funds for expenditure and is authorized by competent Authority.
(iv) To ensure that where huge financial expenditure is made is run economically and is expected to contribute growth.

(d) Interest on Debentures and its audit:

A predetermined fixed rate of interest is payable on debentures irrespective of the fact that company has earned the profit or not. Debenture holders are creditors of the company, they are not the owners. They have no voting powers and cannot influence the management but their claim of interest rank ahead of the claims of the shareholders.

Auditor's Duty:

i. The payment of interest should be vouched by the auditor with the acknowledgement of the debenture-holders, endorsed warrants and in case of bearer debentures with the coupons surrendered.
ii. The auditor should reconcile the total amount paid with the total amount due and payable with the amount of interest outstanding for payment.
iii. He should ensure that the interest paid on debenture like that on other fixed loans, must be disclosed as a separate item in the profit & loss account.