# PAPER 12 - COMPANY ACCOUNTS & AUDIT

**PAPER 12 - COMPANY ACCOUNTS & AUDIT**

**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.**

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

**(i) Segment Reporting is covered under _____________.**
**a. AS 16**
**b. AS 17**
**c. AS 18**
**d. AS 19**

**(ii) Balance of Interest Accrued on Security Deposit A/c of an Electricity company should be shown _________________.**
**a. under Current Liability**
**b. under Non-Current Liability**
**c. under Current Asset**
**d. under Non-Current Asset**

**(iii) Which of the following items is not a part of cash flow from operating activities?**
**a. Collection from customers**
**b. Payment of outstanding wages**
**c. Payment to suppliers of machinery**
**d. Advances to foreign suppliers for raw materials**

**(iv) Provision is created for _______________.**
**a. Unknown Liability**
**b. Known Liability**
**c. Creation of secret reserve**
**d. None**

**(v) Transfer to capital redemption reserve account is not allowed from this profit:**
**a. General reserve**
**b. Reserve fund**
**c. Dividend equalisation fund**
**d. Forfeited shares account**

**(vi) Which of the following is not a mandatory financial statement of a General Insurance Company as per IRDA regulations?**

**a. Revenue Account**
**b. Profit and Loss Account**
**c. Balance Sheet**
**d. Fund Flow Statement**

**Answer: 1**

**(a)**

| i | ii | iii | iv | v | vi |
|---|---|---|---|---|---|
| b | b | c | a | d | d |

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

| | Column 'A' | | Column 'B' |
|---|---|---|---|
| **1.** | **Accounting for Government Grant** | **A** | **Capital Redemption Reserve** |
| **2.** | **Redemption of Debentures** | **B** | **AS 15** |
| **3.** | **Un-guaranteed Residual Value** | **C** | **AS 12** |
| **4.** | **Defined benefit Plans** | **D** | **AS 19** |

**Answer:**

**(b)**

| | Column 'A' | | Column 'B' |
|---|---|---|---|
| 1. | Accounting for Government Grant | C. | AS 12 |
| 2. | Redemption of Debentures | A. | Capital Redemption Reserve |
| 3. | Un-guaranteed Residual Value | D. | AS 19 |
| 4. | Defined benefit plans | B. | AS 15 |

**(c) State whether the following statements are True or False: 1x4=4**

**(i) Except as provided in section 54, a company shall not issue shares at a premium.**

**(ii) "Marked" applications are those applications which bear the stamp of an underwriter.**

**(iii) Interest received by a finance company is a part of cash flow from investing activities.**

**(iv) Schedule III deals only with presentation and disclosure requirements.**

**Answer: (c)**

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

**2. (a) A Ltd. with a Capital of ₹10 Lakhs divided into Equity Shares of ₹10 each places its entire issue on the market and the whole issue has been underwritten as follows:**

| Name of Underwriter | S | P | G | M | N | SA |
|---|---|---|---|---|---|---|
| Number of Shares | 30,000 | 35,000 | 10,000 | 15,000 | 2,000 | 8,000 |

**All marked forms are to go in relief of the liabilities of the underwriter whose name they bear. The share underwritten "Firm" are also to be set off against the liabilities of the underwriters. The application received in Marked Forms is as follows:**

| Name of Underwriter | S | P | G | M | N | SA |
|---|---|---|---|---|---|---|
| Number of Shares | 25,000 | 23,500 | 5,500 | 1,000 | 1,000 | 2,000 |

**Applications for 20,000 Equity Shares are received on Unmarked Forms. In addition, there is a Firm Underwriting by the Underwriters as under**

| Name of Underwriter | S | P | G | M | N | SA |
|---|---|---|---|---|---|---|
| Number of Shares | 500 | 1,500 | 7,000 | 3,000 | 1,000 | 4,000 |

**Calculate the liability of the individual underwriters. [8]**

**(b) Information relating to five segments of V Ltd. is as under:**

**(₹ in lakhs)**

| Segments | A | B | C | D | E | Total |
|---|---|---|---|---|---|---|
| Segment Revenue | 100 | 300 | 200 | 100 | 300 | 1,000 |
| Segment Result | 40 | (60) | 90 | 10 | (30) | 50 |
| Segment Assets | 45 | 55 | 140 | 20 | 40 | 300 |

**As a cost accountant of this company management wishes to know from you which company need to be reported. [4]**

**Answer :**

**2.(a)**

**Statement of Underwriters Liability (Figures in No. of shares)**

| Particulars | S | P | G | M | N | SA | Total |
|---|---|---|---|---|---|---|---|
| Ratio of Gross Liability | 30% | 35% | 10% | 15% | 2% | 8% | 100% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Gross Liability (given) | 30,000 | 35,000 | 10,000 | 15,000 | 2,000 | 8,000 | 1,00,00 |
| Less: Unmarked Applications In the ratio of Gross Liability | 6,000 | 7,000 | 2,000 | 3,000 | 400 | 1,600 | 20,0000 |
| | 24,000 | 28,000 | 8,000 | 12,000 | 1,600 | 6,400 | 80,000 |
| Less: Marked Applications | (25,000 | (23,500 | (5,500) | (1,000) | (1,000) | (2,000) | (58,000 |
| | (1,000)) | 4,500) | 2,500 | 11,000 | 600 | 4,400 | 22,000) |
| Less: Firm underwriting | (500) | (1,500) | (7,000) | (3,000) | (1,000) | (4,000) | (17,000 |
| | (1,500) | 3,000 | (4,500) | 8,000 | (400) | 400 | (5,000) |
| Adjustment: Surplus of S , G , and N to P, M and SA transferred to P,M and SA in Gross Liability Ratio at 35:15:8 | 1500 | (3862) | 4,500 | (1,655) | 400 | (833) | - |
| | - | (862) | - | 6,345 | - | (483) | 5,000 |
| Adjust: Transfer of surplus of P and | - | 862 | - | (1,345) | - | 483 | - |
| Net Liability | - | - | - | 5,000 | - | - | 5,000 |
| Add: Firm Underwriting | 500 | 1,500 | 7,000 | 3,000 | 1,000 | 4,000 | 17,000 |
| Total Liability | 500 | 1,500 | 7,000 | 8,000 | 1,000 | 4,000 | 22,000 |

**2.(b)**

(₹ in lakh)

| Particulars | A | B | C | D | E | Total |
|---|---|---|---|---|---|---|
| 1. Segment Revenue | 100 | 300 | 200 | 100 | 300 | 1,000 |
| 2. % of Segment Revenue | 10% | 30% | 20% | 10% | 30% | |
| 3. Segment Result: Profit | 40 | | 90 | 10 | | 140 |
| Loss | | (60) | | | (30) | (90) |
| 4. % of segment Result, absolute amount of profit/loss whichever is higher, i.e. as a % of 140 | 28.57% | 42.88% | 64.29% | 7.14% | 21.43% | |
| 5. Segment Assets | 45 | 55 | 140 | 20 | 40 | 300 |
| 6. % of Segment Assets | 15% | 18.33% | 46.67% | 6.66% | 13.33% | |
| Reportable Segment | Yes | Yes | Yes | Yes | Yes | |
| Criteria satisfied | Revenue, Result & Assets | Revenue, Result & Assets | Revenue, Result & Assets | Revenue | Revenue, Result & Assets | |

**3. (a) From the following information calculate Cash flow from Operating Activities:**

| Particulars | Closing ₹ | Opening ₹ |
|---|---|---|
| Trade Payables | 1,65,000 | 40,000 |
| Intangible Assets (Goodwill) | 21,000 | 10,000 |
| Inventories | 1,69,000 | 54,000 |
| Trade Receivables | 3,76,000 | 4,06,000 |

**During the year, the business of Y Ltd. was purchased for ₹60,000 payable in fully paid equity shares of ₹10 each at 20% premium. The assets included Inventories ₹15,000. Trade Receivables ₹10,000 and machine ₹30,000. Trade payables of ₹15,000 were also taken over. Net Profit before tax for the year was ₹7,98,000. Tax paid during the year ₹10,000.**

| | |
|---|---|
| A. Net Cash Flow from Operating Activities before tax | 8,57,000 |
| B. Less: Tax paid | (10,000) |
| C. Net Cash Inflow From Operating Activities after Tax | 8,47,000 |

**[5]**

**(b) From the following ledger balances calculate interest earned and interest expended as per Schedule 13 and 15 respectively (Figure being in thousands of ₹)**

| Particulars | Amount ₹ | Particulars | Amount ₹ |
|---|---|---|---|
| Interest on Term Loans | 1,540 | Discount on Bills Discounted | 200 |
| Interest on Fixed Deposits | 1,000 | Interest and Dividend on Investments | 840 |
| Interest on Recurring Deposits | 500 | Interest accrued on Investments | 40 |
| Interest on Saving Bank Deposits | 600 | Interest on balances with RBI | 100 |
| Interest on Cash Credits | 1,820 | Interest on Money at call | 50 |
| Interest on Borrowings | 620 | Interest on overdrafts | 750 |

**Additional Information:**

**(i) Interest on NPA is as follows:**

| Particulars | Earned ₹ in 000 | Collected ₹ in 000 |
|---|---|---|
| Term Loans | 750 | 250 |
| Cash Credits | 820 | 400 |

| | | |
|---|---|---|
| **Overdrafts** | **450** | **100** |

**(ii) Rebate on Bills Discounted: Opening Balance ₹75, Closing Balance ₹125.** **[7]**

**Answer:**

**3. (a)**

| Particulars | ₹ | ₹ |
|---|---|---|
| A. Net Profit before tax | | 7,98,000 |
| B. Add: Goodwill amortised | | 9,000 |
| C. Operating Profit before Working Capital Changes | | 8,07,000 |
| D. Changes in Current Assets and Current Liabilities | | |
| Increase in Inventories [(1,69,000 -15,000) – 54,000] | (1,00,000) | |
| Decrease in Trade Receivables [(3,76,000 10,000) – 4,06,000] | 40,000 | |
| Increase in Trade Payables [(1,65,000 – 15,000) – 40,000] | 1,10,000 | 50,000 |
| E. Net Cash Flow from Operating Activities before tax | | 8,57,000 |
| F. Less: Tax paid | | (10,000) |
| G. Net Cash Inflow From Operating Activities after Tax | | 8,47,000 |

Note: Goodwill Amortized

= Goodwill Purchased + Opening Goodwill - Closing Goodwill

= [ ₹60,000 – (₹15,000 + ₹10,000 + ₹30,000 - ₹15,000] + ₹10,000 - ₹21,000

= ₹9,000

**3. (b)**

Schedule 13 — Interest Earned

| Particulars | ₹000 | ₹000 |
|---|---|---|
| Interest on Term Loan (1,540 – 500) | 1,040 | |
| Interest on Cash Credits (1,820 – 420) | 1,400 | |
| Interest on Overdraft (750 – 350) | 400 | |
| Discount on Bills discounted (200 + 75 – 125) | 150 | 2,990 |
| Income on Investments | | 840 |
| Interest on Balances with RBI | | 100 |
| Interest on Money at call and at short notice | | 50 |
| | | 3,980 |

Schedule 15 — Interest Expended

| Particulars | ₹000 |
|---|---|
| Interest on Fixed Deposits | 1,000 |
| Interest on Recurring Deposits | 500 |
| Interest on Saving Bank Deposits | 600 |
| Interest on Borrowings | 620 |
| | 2,720 |

**Note:** Interest accrued on Investments has already been adjusted in the figure of ₹840 and hence no further adjustment has been made.

**4. A Ltd. was formed on 01.04.2022 with an authorized capital of 6,00,000 in shares of ₹10 each. Of these 52,000 shares had been issued and subscribed but there were callsin arrears on 100 shares. From the following Trial Balance as on 31.03.2023, prepare Profit and Loss A/c and Balance Sheet.**

| **Particulars** | **₹** | **₹** |
|---|---|---|
| **Cash at Bank** | **1,05,500** | **-** |
| **Share Capital** | **-** | **5,19,750** |
| **Plant** | **40,000** | **-** |
| **Sale of Silver** | **-** | **17,950** |
| **Mines** | **2,20,000** | **-** |
| **Promotion Interest on Deposit upto Dec 31st** | **6,000** | **-** |
| **Interest on Deposit upto Dec 31st** | **-** | **3,900** |
| **Dividend on Investment** | **-** | **3,200** |
| **Royalty paid** | **10,000** | **-** |
| **Trucks & Wagons** | **17,000** | **-** |
| **Wages** | **74,220** | **-** |
| **Advertising** | **5,000** | **-** |
| **Carriage on plant** | **1,800** | **-** |
| **Furniture & Buildings** | **20,900** | **-** |
| **Administrative Expenses** | **28,000** | **-** |
| **Repairs to Factory Plant** | **900** | **-** |
| **Coal & oil** | **6,500** | **-** |
| **Cash** | **530** | **-** |
| **Investment in Shares** | **80,000** | **-** |

| | | |
|---|---|---|
| **Brokerage on above shares** | **1,000** | **-** |
| **6% F.D. in Bank 01.04.2022** | **89,000** | **-** |
| | **7,06,350** | **7,06,350** |

**Depreciate Plant & railway wagons by 10%, Furniture & Buildings by 5%. Write off one-third of the promotion expenses. Value of Silver as on 31.03.2023 was ₹15,000. The directors forfeited on December 10th 2022 ,100 shares of which only ₹7.50 had been paid.** **[12]**

**Answer:**

**4.**

Statement of Profit and Loss for the year ending 31.03.2023

| Particulars | Note | Amount (₹) |
|---|---|---|
| Revenue from operation | 1 | 1,79,500 |
| Other income | | 23,435 |
| Total Revenue | | 2,02,935 |
| Expenses | | |
| Employee benefits | 2 | 1,02,220 |
| Depreciation and Amortisation | 3 | 6,925 |
| Other Expenses | 4 | 24,400 |
| Total Expenditure | | 1,33,545 |
| Profit for the year | | 69,390 |

Balance Sheet as at 31.03.2023

| Particulars | Note | Amount (₹) |
|---|---|---|
| I. Equity & Liability | | |
| Share Capital | 1 | 5,19,750 |
| Reserves and Surplus | 2 | 69,390 |
| Total Liabilities | | 5,89,140 |
| II. Assets | | |
| Fixed Assets | | |
| Tangible Assets | 3 | 2,92,775 |
| Intangible Assets | 4 | 4,000 |
| Non-current Investment | 5 | 81,000 |
| Current Assets | | |
| Inventories | 6 | 15,000 |
| Cash & Cash Equivalents | 7 | 1,95,030 |

| | | |
|---|---|---|
| Other current assets | 8 | 1,335 |
| | | 5,89,140 |

**Working Notes:**

1. Share Capital

| Particulars | Amount (₹) |
|---|---|
| Share Capital 5,19,000 – Forfeited 750 | 5,19,750 |

2. Reserves and Surplus

| Particulars | Amount (₹) |
|---|---|
| Profit and Loss A/c | 69,390 |

3. Tangible Assets

| Particulars | | Amount (₹) |
|---|---|---|
| Mines | | 2,20,000 |
| Furniture | 20,900 | |
| (-) 5% Depreciation | 1,045 | 19,855 |
| Plant | 40,000 | |
| (+) Carriage | 1,800 | |
| | 41,800 | |
| (-) 10% Depreciation | 4,180 | 37,620 |
| Trucks | 17,000 | |
| (-) 10% Depreciation | 1,700 | 15,300 |
| | | 2,92,775 |

4. Intangible Assets

| Particulars | | Amount (₹) |
|---|---|---|
| Promotion Expenses | 6,000 | |
| (-) Written off | 2,000 | 4,000 |

**5.** Non-current Investments

| Particulars | Amount (₹) |
|---|---|
| Investments in shares | 81,000 |

6. Inventories

| Particulars | Amount (₹) |
|---|---|
| Closing Stock | 15,000 |

7. Cash and Cash equivalents

| Particulars | | Amount (₹) |
|---|---|---|
| Cash at bank | 1,05,500 | |
| Cash in hand | 530 | |
| 6% F.D in Bank | 89,000 | 1,95,030 |

8. Other current assets

| Particulars | Amount (₹) |
|---|---|
| Int. O/s on FD | 1,335 |

9. Other Incomes

| Particulars | | Amount (₹) |
|---|---|---|
| Closing stock | | 15,000 |
| Int. on F.D. | 3,900 | |
| (+) O/s int. | 1,335 | 5,235 |
| Div. from Investment | | 3,200 |
| | | 23,435 |

10. Employee Benefits

| Particulars | | Amount (₹) |
|---|---|---|
| Wages | 74,220 | |
| Administrative Exps. | 28,000 | 1,02,220 |

11. Depreciation & Amortisation

| Particulars | Amount (₹) |
|---|---|
| 41,800 ×10% | 4,180 |
| 17,000×10% | 1,700 |
| 20,900 × 5% | 1,045 |
| | 6,925 |

12. Other Expenses

| Particulars | Amount (₹) |
|---|---|
| Coal & oil | 6,500 |
| Royalty | 1,000 |
| Repairs | 900 |
| Advertising | 5,000 |
| Promotion expenses written off | 2,000 |
| | 24,400 |

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

**a. Central Electricity Regulatory Commission (CERC);**

**b. Follow on public offer;**

**c. Disclosure requirement as per AS 11;**

**d. Advantages of buy-back.**

**Answer:**

**5.**

**a. Central Electricity Regulatory Commission (CERC):**

The Central Electricity Regulatory Commission shall be a body corporate, having perpetual succession and a common seal with power to acquire, hold and dispose of property, both movable and immovable, and to contract and shall, by the said name, sue or be sued.

The Central Commission shall consist of the following Members namely:

(i) A chairperson and 3 Members

(ii) The Chairperson of the Authority who shall be the Member, ex-officio.

The Chairperson and Members of the Central Commission shall be appointed by the Central Government on the recommendation of the Selection Committee.

The functions of the Central Commission include regulating the tariff of generating companies, the inter-state transmission of electricity, to issue licenses, to levy fees, to fix trading margin etc.

**b. Follow on public offer:**

A follow-on public offer (FPO) is the issuance of shares to investors by a company listed on a stock exchange. A follow-on offering is an issuance of additional shares made by a company after an initial public offering (IPO).

1.A follow-on public offer (FPO), also known as a secondary offering, is the additional issuance of a company's shares after its initial public offering (IPO).
2.Companies usually announce FPOs to raise equity or reduce debt.
3.The two main types of FPOs are dilutive, meaning new shares are added, and nondilutive, meaning existing private shares are sold publicly.
4.An at-the-market (ATM) offering is a type of FPO by which a company can offer secondary public shares on any given day, usually depending on the prevailing market price, to raise capital.

Public companies can also take advantage of an FPO through an offer document. FPOs should not be confused with IPOs, the initial public offering of equity to the public. FPOs are additional issues made after a company is established on an exchange.
Proceeds from the sale go to the company issuing the stock. Similar to an IPO, companies that want to execute a follow-on public offer must fill out U.S. Securities and Exchange Commission (SEC) documents.

**Types of Follow-on Public Offers (FPOs):** There are two main types of follow-on public offers

- The first is dilutive to investors, as the company's board of directors agrees to increase the share float level or the number of shares available. This kind of follow-on public offering seeks to raise money to reduce debt or expand the business, resulting in an increase in the number of shares outstanding.
- The other type of follow-on public offer is non-dilutive. This approach is useful when directors or substantial shareholders sell off privately held shares.

**c. Disclosure under AS -11: An enterprise should disclose:**

a) The amount of exchange difference included in the net profit or loss for the period.

b) The amount of exchange difference adjusted in the carrying amount of fixed assets during the accounting period.

c) The amount of exchange difference in respect of forward contracts to be recognized in the profit/ loss for one or more subsequent accounting period.

d) Foreign currency risk management policy.

**d. Buy-back have the following advantages:**

i. A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital.
ii. Free reserves which are utilized for buy-back instead of dividend enhance the value of the company's shares and improve earnings per share.
iii. (iii)Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax.
iv. Buy-back may be used as a weapon to frustrate any hostile take-over of the company by undesirable persons.

**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) The most comprehensive type of audit is the ______________ system audit, which examines suitability and effectiveness of the system as a whole.**

**a. Quantity**
**b. Quality**
**c. Preliminary**
**d. Sequential**

**(ii) SA 300 stands for:**

**a. Audit Planning"**
**b. Audit Sampling**
**c. Audit Documentation**
**d. None of these**

**(iii) Internal Control Questionnaire contains the questions need to be followed by the-**

**a. Employer of the organisation**
**b. Employee of the organsation**
**c. Auditor of the entity**
**d. Banker to the organsation**

**(iv) Secretarial Audit is covered under section:**

**a. 204**
**b. 148**
**c. 139**
**d. None of the above**

(v) **Remuneration of auditors is covered under Section ____________ of Companies Act, 2013. a. 142**
- **b. 148**
- **c. 139**
- **d. None of the above**

(vi) **CAATS stands for:**
- **a. Cornwall Air Ambulance Trust**
- **b. Children Air Ambulance Trust**
- **c. Center for alternatives to Animal Testing**
- **d. Computer Assisted Auditing Techniques**

**Answer:**

**6. (a)**

| i | ii | iii | iv | v | vi |
|---|---|---|---|---|---|
| b | d | b | a | a | d |

**(b) Match the following:** **[4×1=4]**

| | Column 'A' | | Column 'B' |
|---|---|---|---|
| **1.** | **Statutory Audit** | **A.** | **Cost Audit report by the Auditor to Company** |
| **2.** | **CRA 3** | **B.** | **Cost Audit** |
| **3.** | **Independent Directors** | **C.** | **Tax Audit** |
| **4.** | **Sec 148 of the Companies Act** | **D.** | **Audit Committee** |

**Answer:**

**6.(b)**

| | Column 'A' | | Column 'B' |
|---|---|---|---|
| 1. | Statutory Audit | C. | Tax Audit |
| 2. | CRA 3 | A. | Cost Audit report by the Auditor to Company |
| 3. | Independent Directors | D. | Audit Committee |

| | | | |
|---|---|---|---|
| 4. | Sec 148 of the Companies Act | B. | Cost Audit |

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

**(i) An audit report should have a proper title.**

**(ii) Auditor has right to disclose the client information to a third party.**

**(iii) An in depth examination to detect a suspected fraud is termed as Investigation.**

**(iv) CRA-2 is used to intimate the appointment of Cost Auditor to the Central Government**

**Answer:**

**6. (c)**

**(i)** True,
**(ii)** False,
**(iii)** True,
**(iv)** True

**7. (a) List down the needs for Audit Evidence.**

**(b) State the objectives of Internal Control. [5+7 = 12]**

**Answer:**

**7.(a)**

Audit evidence provides the auditor a reasonable assurance in respect of the assertions made by the management. While obtaining evidence through substantive procedures, the different assertions made by the management can be as follows:

1) Existence – that an asset or a liability exists at a given date;
2) Rights and Obligations - that an asset is a right of the entity and a liability is an obligation of the entity at a given date;
3) Occurrence -that a transaction or event took place which pertains to the entity during the relevant period;
4) Valuation - that an asset or liability is recorded at an appropriate carrying value;
5) Measurement -that a transaction is recorded in the proper amount and revenue or expense is allocated to the proper period;
6) Presentation and Disclosure - an item is disclosed, classified and described in accordance with recognized accounting policies and practices and relevant statutory requirements, if any.

While obtaining evidence through compliance procedures, the different assertions made by the management can be as follows:

(i) Existence -that the internal controls exist;
(ii) Effectiveness - that the internal controls are operating effectively;
(iii) Continuity - that the internal controls have been so operated throughout the period of intended reliance.

**7. (b)** Each organization must have a system of internal control in place for achieving the pre-set goals. Other than accomplishing the desired goals and objectives of the organization, this system plays a very important role in any organization. The main objectives of internal control are enumerated below:

i. Compliance: To have compliance with law and the accounting practices generally accepted and followed in the country. The accounting process also needs to be in compliance with these.
ii. Reliance: To increase the reliance on the internal systems, people and accounting practices followed by the organization, so that the chances of frauds are reduced.
iii. Safeguarding: To safeguard the organization's accounts, employees and assets by formation of fool-proof policies, rules and regulations. iv. Security: To provide security to customers, employees and property of the organization. Physical security systems like security guards, locks and anti-theft devices are used for providing protection.
v. Increased efficiency: To assist in human resource and performance management, and to keep proper control over business activities to achieve maximum levels of efficiency.
vi. Evaluation: To evaluate the accounting system for proper authorization of transactions.
vii. Review and correction: To review the working of the business, locate weak points in operations and to take corrective measures for proper working.
viii. Authorization: To provide proper authority for purchase, sale, valuation, verification and possession of assets. ix. Delegation: To provide for division of duties among the employees where all staff members work cohesively.
x. Accurate planning: To ensure that the auditors and the accountants of the organization make all the financial reports correctly and to ensure that financial planning is done accurately.
xi. Conformity with accounting principles: To conform to the basic accounting concepts, and principles that was governing an organization.
xii. Resource utilization: To ensure that all the resources: Man, Material, Money and Machines of the organization are optimally used. xiii. Safeguarding of resources: To protect the resources of the organization against mismanagement or fraud and to ensure that the company's activities are in accordance with laws and regulations.
xiii. Setting future Corporate Goals: An efficient system of internal control helps the organization in goal setting.
xiv. However, the organization should have certain policies, rules and regulations in place to achieve the pre-set goals.

**8. (a) Analyses the reporting requirement of frauds by an Auditor. [5]**

**(b) State the matters relating to the removal, resignation of auditor and giving of special notice as per section 140 of the companies Act 2013. [7]**

**Answer :**

**8.(a)**

For the purpose of sub-section (12) of section 143, in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below.

1. auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;
2. on receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
3. in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.
4. The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an e-mail in confirmation of the same.
5. The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number.
6. The report shall be in the form of a statement as specified in Form ADT-4. The provision of this rule shall also, mutatis mutandis, to a cost auditor and a secretarial auditor during the performance of his duties under section 148 and section 204 respectively.

**8.(b)**

Removal: The auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government. (1) The application to the Central Government for removal of auditor shall be made in e Form ADT-2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014. (2) The application shall be made to the Central Government within thirty days of the resolution passed by the Board. (3) The company shall hold the general meeting within sixty days of receipt of approval of the Central Government for passing the special resolution. Provided that before taking any action under this subsection, the auditor concerned shall be given a reasonable opportunity of being heard.

Resignation: The auditor who has resigned from the company shall file within a period of thirty days from the date of resignation, a statement in the prescribed form (ADT - 3) with the company and the Registrar, and in case of companies referred to in sub-section (5) of section 139, Govt. companies and companies where CAG, appoints auditor, the auditor shall also file such statement with the Comptroller and Auditor-General of India, indicating the reasons and other facts as may be relevant with regard to his resignation. If the auditor does not comply with the provision of sub-section (2), he or it shall be liable to a penalty of fifty thousand rupees or an amount equal to the remuneration of the auditor, whichever is less, and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of five lakh rupees.

Special notice: Special notice for resolution at an annual general meeting for appointment of auditor other than a retiring auditor; On receipt of notice of such a resolution, the company shall forthwith send a copy thereof to the retiring auditor;

Where notice is given of such a resolution and the retiring auditor makes with respect thereto representation in writing to the company and requests its notification to members of the company, the company shall, unless the representation is received by it too late for it to do so, — in any notice of the resolution given to members of the company, state the fact of the representation having been made; and send a copy of the representation to every member of the company to whom notice of the meeting is sent, whether before or after the receipt of the representation by the company, If a copy of the representation is not sent as aforesaid because it was received too late or because of the company's default, the auditor may require that the representation shall be read out at the meeting.

**9. (a) Who can conduct the secretarial audit and which company have to undergo such? [5]**

**(b) Distinguish between clean audit report and qualified audit report. [7]**

**Answer:**

**9.(a)**

Under section 204 (1) Every listed company and a company belonging to other class of companies as may be prescribed in rule 9 of chapter XIII under the Act, shall annex with its Board's report made in terms of sub-section (3) of section 134, a secretarial audit report, given by a company secretary in practice, in such form as may be prescribed in rule 9 of chapter XIII under the Act. Rule 9 Secretarial Audit Report:

For the purposes of sub-section (1) of section 204, the other class of companies shall be as under-

a. Every public company having a paid-up share capital of fifty crore rupees or more; or
b. Every public company having a turnover of two hundred fifty crore rupees or more.

The format of the Secretarial Audit Report shall be in Form No. MR.3.

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.

The Board of Directors, in their report made in terms of sub-section (3) of section 134, shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report under subsection (1).

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 punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees. As per section 204(1) of Companies Act, 2013 read with rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the following companies are required to obtain Secretarial Audit Report:

(i) Every listed company;
(ii) Every public company having a paid-up share capital of fifty crore rupees or more; or
(iii) Every public company having a turnover of two hundred fifty crore rupees or more.
(iv) Every company having outstanding loans or borrowings from banks or public financial institutions of ₹100 crores or more.

However, the "Turnover" means the aggregate value of the realisation of amount made from the Sale,

Supply or Distribution of goods or on account of services rendered, or both, by the company during a financial year [Section 2(91)].

The Secretarial Audit Report is required to be provided in the format prescribed in Form MR-3 (Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014).

**9.(b)**

Distinguish between Clean Audit Report and Qualified Audit Report:

| Clean Audit Report | Qualified Audit Report |
|---|---|
| The Auditor issues a Clean Report (also called as unconditional opinion) when he does not have any reservation with regard to the matters contained in the Financial Statements. | A Qualified Audit Report is one where an Auditor gives an opinion subject to certain reservations. |
| In a Clean Report, the Auditor states that the Financial Statements give a true and fair view of the state of affairs and results for the period. | The Auditor's reservation is generally stated as - "Subject to the above, we report that the Balance Sheet shows a true and fair view." |

| | |
|---|---|
| The Auditor is justified in issuing a clean report if - (i) The accounts are prepared using generally accepted accounting principles. (ii) The Auditor has examined sufficient reliable evidence in respect of transactions recorded in the books. (iii) The transactions recorded represent a true recording of the events. (iv)The transactions are within the legal competence of the entity. (v) There are no material misstatements in the Financial Statements. (vi)The Financial Statements comply with the format | A Qualified Opinion should be expressed when the Auditor concludes that - i. An Unqualified Opinion cannot be expressed, ii. The effect of any disagreement with Management is not so material and pervasive as to require an Adverse Opinion, or iii. The Limitation on scope is not so material and pervasive as to require a Disclaimer of Opinion. |
| and disclosure requirements as per the Statute | |
| There is no specific duty of Management for Clean Reports. | Management is bound to give explanation & full details in respect of each qualification in the Auditors Report. [Section 134] |

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

a) **Joint Audit and it advantages;**
b) **Fixed Assets Audit**
c) **Audit of trusts.**
d) **Statutory Audit vs. Internal Audit.**

**Answer:**

**10.**

**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 auditor whereas appointed.

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
- Knowledge pool

**b) Fixed Assets Audit:**

Audit of fixed assets refers to the examination and verification of an organization's tangible assets, such as property, plant, and equipment. It involves assessing the accuracy and completeness of fixed asset records, ensuring proper classification and valuation, and confirming the existence and condition of assets. The audit aims to verify ownership, safeguard assets against theft or loss, assess depreciation calculations, and ensure compliance with accounting standards and policies. By conducting this audit, organizations can maintain accurate financial records, mitigate risks, and make informed decisions regarding their fixed asset investments.

Objectives

- Ensure that All Expenses which need to be capitalized are capitalized;
- Company is maintaining proper Records of Fixed Assets;
- Deprecation, Profit/Loss on Fixed Assets Correctly Calculated;
- Compliance of Accounting Standards;
- Compliance of Revised Schedule VI;

Steps to Audit of fixed assets:

Step 1: understand the client procedure of Fixed Assets acquisition and disposal

Step 2: Obtain Fixed Assets Register as maintained by the Client

Step 3: Vouching of Additions to Fixed Assets

Step 4: Vouching of Deletion from Fixed Assets

Step 5: Depreciation and Amortization

Step 6: Revaluation

Ensure that immovable properties held as investments and as stock in trade have been shown accordingly in the accounts.

Ensure that Inter-Unit Sales/Purchases are eliminated from Fixed Assets Register and Summary of Inter-Unit Sales/Purchase should be available separately.

Treatment of Grant received towards cost of assets should be as per AS-12.

Obtained Physical Verification Report and ensure that it should be carried out at regular intervals. impairment should be as per AS 28. Ensure that all fixed assets are properly insured.

**c) Audit of trusts.:**

When conducting the audit of a charitable institution, the auditor should consider the following matters:

- Constitution: The auditor should study the constitution of the charitable institution, for example, whether it is set up under the Societies Registration Act or as per section 8 of the Companies Act or as a trust.

- Interest of members: Obtain a list of members of the governing body. This will help the auditor in identifying whether any of the members of the governing body has any interest in the charitable institution.
- Budget: The auditor should obtain a copy of the budget sanctioned or the financial statement. This would enable him to acquaint himself with the different heads of income and expenditures of incomes and expenditures of the institution.
- Internal Check: Examination of the system of internal check, especially as regards the accounting of the amounts collected.
- Collection & Deposit of income: Check that the amounts received towards income have been duly collected, received and deposited into the bank regularly and promptly. Subscription and donation: These institutions receive subscriptions and donations which form the major part of their collections. Therefore, the auditor should check the following:
  - The amount or the rate of the annual subscription.
  - Any instructions given by the donors as to the specific utilization of donation.
  - Adequacy of internal controls existing as regards unused receipt books, counter foils, etc.
  - Where subscriptions are received in advance these should be properly dealt with in the accounts.
- Legacies received: Verify the amounts of legacies received by reference to correspondence with any figures and other available information's.
- Income from Investment: Where the institution has made any investments or given loans, the amount of dividend and interest should be properly vouched with reference to the counterfoils or dividend warrants received. It should be ensured that such loans or grants are given under proper authorizations.
- Rent: If some property is given or taken on rent, then the auditor should check the tenancy agreement, the rent slips and the authorized person for the collection or payment, as the case may be, of the rent.
- Income/Expenditure relating to concert: Most of the organisations organize special functions such as concert etc. The auditor should be careful in such cases. All the gross receipts and outgoings are to be properly vouched by him. It should be ensured that proper internal check was maintained as regards the receipts and outgoings. For example, the person responsible for collection and disbursements should be separate persons.
- Expenditure-a major area of concern: The expenditure of charitable institution is also one of the major areas of concern. Thus the auditor should verify that the expenditure is made only for the charitable purpose. If the expenditure is not for the charitable purpose, then the auditor should examine the implications of applicable law and document for the same.
- Physical verification: The auditor should physically verify the cash in hand, inventories and fixed assets.

**d) Statutory Audit vs. Internal Audit:**

Statutory Audit is the act of checking books of accounts as per the provision of Companies Act, whereas Internal Audit is conducted by the either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board of the Company to detect weakness in internal control system and for their improvement. However, both of these types of audit check books of accounts, detect frauds & errors however they differ from each other which is reproduced below;

| Statutory Audit | Internal Audit |
|---|---|
| Statutory Auditor is appointed by the shareholder in the general meeting. | Internal Auditor is appointed by the Board. |
| 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. |
| Statutory Auditor can be removed by the shareholders. | Internal Auditor can be removed by the Board. |
| It is fixed by the shareholders. | It is fixed by the board. |
| It is submitted to the appointing Authority. | It is submitted to the Board as a suggestion to improve weakness in the internal control. |