

**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) Which of the following is not a long term source of finance?

- (A) Issue of shares
- (B) Debentures
- (C) Loans
- (D) **Debtors**

(ii) As per Section \_\_\_\_\_ of The Companies Act, 2013 no shares can be issued at a discount

- (A) **53**
- (B) 39
- (C) 63
- (D) 73

(iii) As per Section 52 of the Companies Act, 2013 share premium account may be applied to which of the following?

- (A) Issue of fully paid bonus shares to the members of the company
- (B) For writing off preliminary expenses of the company
- (C) For writing off the expenses of the commission paid or discount allowed on any issue of shares or debentures of the company
- (D) **All of the above**

(iv) Which of the following is a Non-current Asset?

- (A) **Long term Loans & Advances**
- (B) Trade Receivables
- (C) Cash & Cash Equivalents
- (D) Inventories

(v) The Electricity Act, 2003 replaces which of the following existing legislations?

- (A) The Indian Electricity Act, 1910
- (B) The Electricity Regulatory Commissions Act, 1998
- (C) Companies Act, 2013
- (D) **Both (A) and (B)**

(vi) Issue of Preference Shares is a \_\_\_\_\_ Activity.

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

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(b) Match the following:

[4×1=4]

	Column 'A'		Column 'B'
1.	Marked Application	A.	Issue of Application Forms for Securities
2.	Section 68	B.	Sweat Equity Shares
3.	Section 54	C.	Purchase of Own Securities by a Company
4.	Section 33	D.	Those applications which bear the stamp of an underwriter

Answer:

	Column 'A'		Column 'B'
1.	Marked Application	D.	Those applications which bear the stamp of an underwriter
2.	Section 68	C.	Purchase of Own Securities by a Company
3.	Section 54	B.	Sweat Equity Shares
4.	Section 33	A.	Issue of Application Forms for Securities

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

[4×1=4]

- Escrow account means an account in which money is held until consideration for buy-back of shares is paid to the shareholders.
- Liability of the members of a company is limited to the extent of the face value of shares held by them.
- Statutory books are those which a limited company is under statutory obligation to maintain at its registered office.
- Preference Shares carries a fixed rate of interest.

Answer:

- True;
- True;
- True;
- False.

Answer any three questions out of the following four questions

[3×12=36]

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

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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]

Answer:

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	1,00,000
Less: Unmarked Applications In the ratio of Gross Liability	6,000	7,000	2,000	3,000	400	1,600	20,000
	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
<b>Adjustment:</b> 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
<b>Adjust:</b> Transfer of surplus of P and SA to M	-	862	-	(1,345)	-	483	-
Net Liability	-	-	-	5,000	-	-	5,000
<b>Add:</b> Firm Underwriting	500	1,500	7,000	3,000	1,000	4,000	17,000
<b>Total Liability</b>	500	1,500	7,000	8,000	1,000	4,000	22,000

(b) You are given the following information in respect of a Manufacturer Lessor.

Explain how it will be treated as per AS -19?

- (i) Fair Value of the asset at the inception of lease = ₹11,20,000,
- (ii) Present Value of MLP accruing to the Lessor, discounted at a commercial rate of interest = ₹10,00,000,
- (iii) Cost of Leased Asset at the commencement of the lease = ₹8,32,000,
- (iv) Present Value of URV = ₹24,000,
- (v) Initial Direct Costs (Sales Commission) = ₹36,000,
- (vi) Gross Investment in the Lease = ₹11,92,000,
- (vii) Lease Term = 36 months.

[8]

Answer:

Particulars	Computation	Amount ₹
1. Fair Value of Asset at the inception of the lease	Given	11,20,000

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2. Present Value of MLP accruing to the Lessor	Given	10,00,000
3. Sale Value to be recognized by the Manufacturer Lessor	(1) or (2), whichever is less	10,00,000
4. Cost of the Asset at the inception of lease	Given	8,32,000
5. Present Value of Unguaranteed Residual Value	Given	24,000
6. Cost of Sale to be recognized by the Manufacturer	(4) - (5)	8,08,000
7. Selling Profit for the Manufacturer Lessor	(3) - (6)	1,92,000
8. Initial Direct Costs recognized as an Expense	Given	36,000
9. Net Profit on Sale	(7)-(8)	1,56,000
10. Gross Investment in the Lease	Given	11,92,000
11. Present Value of MLP and URV	(2) + (5)	10,24,000
12. Finance Income to be recognized over 36 months period	(10)-(11)	1,64,000

3. (a) The Revenue Account of a life insurance company shows the life assurance fund on 31st March, 2017 at ₹47,00,000 before taking into account the following items:

- (i) Claims covered under re-insurance ₹7,000.
- (ii) Bonus utilized in reduction of life insurance premium ₹2,000.
- (iii) Interest accrued on securities ₹5,500.
- (iv) Outstanding premium ₹3,000.
- (v) Claims intimated but not admitted ₹22,000.

What is the life assurance fund after taking into account the above omissions?

[5]

Answer:

### Statement showing Life Assurance Fund

Particulars	Amount (₹)	Amount (₹)	Amount (₹)
Balance of Fund as on 31 <sup>st</sup> March, 2017			47,00,000
Add:			
Interest on securities		5,500	
Premium outstanding		3,000	
			8,500
			47,08,500
Less:			
Claims outstanding	22,000		
Less Covered under re-insurance	7,000		
		15,000	
Bonus in reduction of premium		2,000	
			17,000
Balance of Life Assurance Fund			46,91,500

- (b) On 31st March, 2016 Hi-Fi Bank Ltd. had a balance of ₹72 crores in Rebate on Bill Discounted Account. During the year ended 31st March, 2017, ABC Bank Ltd. discounted bills of exchange of ₹32,000 crores charging interest at 18% p.a., the average period of discount being for 73 days. Of these, bills of exchange of ₹4,800 crores were due for realization from the acceptor/customers after 31<sup>st</sup> March, 2017, the average period outstanding after 31st March, 2017 being 36.5 days.

Hi-Fi Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to:

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(ii) Discounting of Bills of Exchange; and

(iii) Rebate on bill Discounted.

[7]

Answer:

In the books of ABC Bank Ltd

### Journal

Date	Particulars	L.F.	Debit (₹ Crore)	Credit (₹ Crore)
2017	Rebate on Bill Discounted A/c Dr. To, Discount on Bills A/c (Being the transfer of opening balance to Rebate on Bill Discounted Account]		72.00	72.00
	Bills Purchased and Discounted A/c Dr. To, Client A/c To. Discount on bills A/c (32000×18%×73/365) (Being the discounting of bills during the year)		32000.00	30848.00 1152.00
	Discount on bills A/c Dr. To Rebate on Bills Discounted A/c (4800×18%×36.5/365) (Being the provision for unexpired discount as on 31.03.2017)		86.40	86.40
	Discount on bills A/c Dr. To, Profit and Loss A/c (Being the amount of income for the year from discounting of bills of exchange transferred to Profit and Loss Account)		1137.60	1137.60

### Ledger of ABC Bank Ltd.

Dr.		Rebate on Bill Discounted Account		Cr.	
Date	Particulars	(₹ Crore)	Date	Particulars	(₹ Crore)
01.04.16	To Discount on bills A/c	72.00	01.04.16	By balance b/d	72.00
31.03.17	To balance c/d	86.40	31.03.17	By Discount on bill A/c (Rebate required)	86.40
		158.40			158.40

Dr.		Discount on Bill Account		Cr.	
Date	Particulars	(₹ Crore)	Date	Particulars	(₹ Crore)
31.03.12	To Rebate on Bills Discount A/c	86.40	01.04.16	By Rebate on Bills Discounted A/C	72.00
	To Profit and Loss A/c (Transfer)	1137.60	2016-17	By bills Purchased and Discount A/c	1152.00
		1224.00			1224.00

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4. ABC Ltd. provides the following Trial Balance as on 31st March 2017:

Particulars	Dr. Balances (₹)	Cr. Balances (₹)
Equity Share Capital: 350000 shares of ₹ 10 each fully paid		35,00,000
10% Debentures		3,00,000
Motor Van	4,00,000	
Machinery	20,00,000	
Land and Building	12,00,000	
12% Long Term Govt. Securities	2,00,000	
Sales		60,00,000
Sales Return	3,00,000	
Interest on Debenture	22,500	
Purchase	36,00,000	
Purchase Returns		4,00,000
Opening Stock	3,00,000	
Discount	7,500	
Carriage Outward	1,50,000	
Rent and Rates	50,000	
Income from Govt. Securities		24,000
Trade Receivables	10,00,000	
Trade Payables		3,00,000
Advertisement	1,50,000	
Bad Debt	20,000	
Salaries	6,72,000	
Misc. Expenditure	30,000	
Contribution to P.F. and Gratuity Funds	2,00,000	
Cash at Bank and in hand	2,22,000	
<b>Total</b>	<b>1,05,24,000</b>	<b>1,05,24,000</b>

Additional Information:

- (i) Closing Stock as on 31st March 2017 was ₹ 3,50,000.
- (ii) Depreciation Rates: Motor Vehicle 10%, Machinery 20% and Land & Building 5%.
- (iii) Misc. expenditure includes ₹ 20,000 as audit fees.
- (iv) Interest on debenture is payable quarterly and the last quarter's interest is yet to be paid.
- (v) Trade receivables include a sum of ₹ 25,000 due from Mr. X who has become insolvent and only 25 paise in a rupee is expected to be recoverable from him.
- (vi) Create a provision for doubtful debt @ 2% on trade receivables.
- (vii) Provide for income tax ₹ 1,50,000.

Prepare a Statement of Profit and Loss for the year ended on 31st March 2017 and a Balance Sheet as on that date. [12]

Answer:

1. Notes to Accounts:

1. Employee Benefit Expenditure	₹
Salaries	6,72,000
Contribution to P.F.	2,00,000
	8,72,000
2. Finance Cost	₹
Interest on loan	22,500
Outstanding Interest	7,500
	30,000

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3. Other Expenditure	₹
Discount	7,500
Carriage	1,50,000
Rent	50,000
Advertisement	1,50,000
Bad Debt	20,000
Audit fees	20,000
Misc. Exp.	10,000
Provision for B/D	38,250
	4,45,750

4. Trade Receivable	₹
Total Receivable	10,00,000
(-) Provision @ 2%	38,250
	9,61,750
Provision = 25000 × 0.75 + (1000000 – 25000) × 0.02	38,250

2. Fixed Assets	Motor Van	Machine	L&B
Balance	4,00,000	20,00,000	12,00,000
(-) Depreciation	40,000	4,00,000	60,000
	3,60,000	16,00,000	11,40,000
Total Fixed Assets			31,00,000
Depreciation			5,00,000

### Statement of Profit and Loss for the year ended on 31.03.2017

Particulars	Note	₹
I. Revenue from operation (sales less returns)		57,00,000
II. Other Income (Income from investment)		24,000
III. Total revenue		57,24,000
IV. Expenses:		
Purchase		32,00,000
Changes in inventory i.e. opening less. Closing		(50,000)
Employee Benefit expenses	1	8,72,000
Finance cost	2	30,000
Depreciation	5	5,00,000
Other expenses	3	4,45,750
		49,97,750
V. Profit before exceptional and extraordinary items and tax		7,26,250
VI. Exceptional items		Nil
VI Profit before extraordinary items and tax		7,26,250
VII. Extraordinary items		Nil
VIII. Profit before tax		7,26,250
IX. Tax (provision for tax)		1,50,000
X. Profit after tax		5,76,250

### Balance Sheet as on 31.03.2017

I. Equity and Liabilities	Note	₹
1. Shareholders' Funds		
(a) Share Capital		35,00,000
(b) Reserve and Surplus (Balance of Profit)		5,76,250
2. Share Application money pending allotment		Nil
3. Non-current liabilities (10% Debentures)		3,00,000
4. Current Liabilities		
Trade Payable		3,00,000



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Outstanding interest		7,500
Provision for Tax		1,50,000
Total		48,33,750
II. Assets		
1. Non-current Assets		
(a) Fixed Assets (Tangible)	5	31,00,000
(b) Non-current Investment (12% L.T. Govt. Securities)		2,00,000
2. Current Assets		
Inventories		3,50,000
Trade Receivable	4	9,61,750
Cash and cash equivalent		2,22,000
Total		48,33,750

5. Write short note (any three):

[3×4=12]

- Money received against Share Warrants;
- Reasons for preparation of Cash Flow Statement;
- Central Electricity Regulatory Commission (CERC);
- Disclosure under AS -11.

Answer:

### Money received against Share Warrants:

- As per Sch. III Disclosure Requirements, it is to be shown as a separate line item on the face of Balance Sheet.
- In case of Listed Companies, Share warrants are issued to Promoters & others in terms of the Guidelines for Preferential Issues viz. SEBI (Issue of Capital and Disclosure Requirements), Guidelines, 2009.
- Effectively, Share Warrants are amounts which would ultimately form part of the Shareholder's Funds. Since Shares are yet to be allotted against the same, these are not reflected as part of Share Capital, but as a separate line - item.

### Reasons for preparation of Cash Flow Statement:

Cash Flow Statement is considered to be a summarized statement showing sources of Cash Inflows and application of cash outflows of an enterprise during a particular period of time. It is prepared on the basis of the published data as disclosed by the Financial Statement of two different financial periods. It is an essential tool for managerial decision-making. Cash Flow reports the management Net Cash Flow (i.e. cash inflow less cash outflow or vice versa) from each activity of the enterprise as well as of the overall business of the enterprise. The management of the enterprise gets a picture of movement of cash resources from the Cash Flow Statement and can assess the stronger and weaker area of movement of cash for different activities of the business for drawing up the future planning.

### Central Electricity Regulatory Commission (CERC):

Meaning: 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

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said name, sue or be sued. Constitution: 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.

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

Functions: 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.

### Disclosure under AS -11:

- (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.

### 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) Audit is a fact-finding process that compares actual results with \_\_\_\_\_.
    - (A) **Specified standards and plans**
    - (B) Expected results
    - (C) Premature results
    - (D) Preliminary results
  - (ii) \_\_\_\_\_ is a continuous critical review of financial and operating activities by a staff member of the auditor.
    - (A) Internal Check
    - (B) Internal Control
    - (C) **Internal Audit**
    - (D) None of the above
  - (iii) Preventive Controls is a type of \_\_\_\_\_.
    - (A) **Internal Control**
    - (B) Detective Control
    - (C) Verification
    - (D) None of the above
  - (iv) Which of the following is/are technique of Verification?
    - (A) Inspection
    - (B) Observation
    - (C) Confirmation
    - (D) **All of the above**
  - (v) The purpose of Internal audit is to detect the error in the;
    - (A) **Accounting records**
    - (B) Employees records

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- (C) Bank records  
(D) None of the above

- (vi) Form CRA - \_\_\_\_\_ is related to Cost Audit Report.  
(A) 1  
(B) 2  
(C) 3  
(D) 4

(b) Match the following:

[4×1=4]

	Column 'A'		Column 'B'
1.	Sec 148 of the Companies Act,2013	A.	Comptroller and Auditor General of India
2.	Section 144 of the Companies Act,2013	B.	Remuneration of Auditors
3.	Section 142 of the Companies Act,2013	C.	Auditors not to render certain services
4.	The authority for Govt. Audit	D.	Cost Audit

Answer:

	Column 'A'		Column 'B'
1.	Sec 148 of the Companies Act,2013	D	Cost Audit
2.	Section 144 of the Companies Act,2013	C	Auditors not to render certain services
3.	Section 142 of the Companies Act,2013	B	Remuneration of Auditors
4.	The authority for Govt. Audit	A	Comptroller and Auditor General of India

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

[4×1=4]

- (i) An audit report do not require a proper title.  
(ii) Flow Chart is a pictorial representation of the internal control system depicting its various elements.  
(iii) Audit Report reflects the work done by the Shareholders.  
(iv) Partial audit is a non 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) List the basic principles governing an audit.

[7]

Answer:

Basic Principles Governing an Audit

The following basic principles govern the auditor's responsibilities whenever an audit is carried out:

- (i) Integrity, objectivity and independence: The auditor should be straight-forward, honest, sincere and free from any influence on his audit work. He should maintain impartiality and be free of any interest.
- (ii) Confidentiality: He should not disclose the client's information to anybody without the client's permission or under any regulatory requirement.
- (iii) Skills and competence: The audit should be performed and audit report be prepared by adequately trained, experienced and competent person.
- (iv) Work performed by others: The auditor should carefully supervise the work performed by others (such as his subordinates, other auditors, experts etc.) as remains responsible for the work delegated by him to his assistants, other auditors or experts.
- (v) Documentation: Proper working papers should be maintained by the auditor to evidence the audit work. Working paper which is maintained is to demonstrate that the audit is in adherence to the basic principles.
- (vi) Planning: The auditor should obtain the knowledge about client's business to determine the nature, timing and the extent of the audit procedures.
- (vii) Audit evidence: The auditor should obtain sufficient appropriate audit evidence through performing the compliance and substantive procedures.
- (viii) Accounting system and internal controls: An understanding of the accounting system and the related internal controls help in determining the nature, timing and extent of other audit procedures.
- (ix) Audit conclusions and reporting: On the basis of conclusions drawn from the audit evidence obtained the auditor should give unqualified report or qualified report or adverse report or the disclaimer report.

**(Students may mention any 7 points)**

- (b) "Social audit is the way of measuring, understanding, reporting and improving an organization's performance towards meeting its social and ethical objectives". Discuss. [5]

**Answer:**

Social audit is the way of measuring, understanding, reporting and improving an organization's performance towards meeting its social and ethical objectives.

It helps in assessing the needs of the society and resources available for fulfilling them. It spreads awareness among beneficiaries about the business' efforts towards attaining social objectives. Increasing efficacy and effectiveness of the organization's Corporate Social Responsibility (CSR) programmes is an important function of Social Audit. It also scrutinizes the policy decisions, keeping in view the interests of stakeholders.

Advantages of Social Audit are:

- (i) Encourages community participation among different business entities.
- (ii) Ensures continuous efforts towards environmental protection and use of environment friendly production processes.
- (iii) Builds customer satisfaction and trust through ethical business practices.
- (iv) Promotes collective decision making and sharing responsibilities.
- (v) Develops human resources by working towards improvement of workers' and the underprivileged persons' working/ living conditions.

8. (a) Discuss eligibility, qualifications and disqualifications of auditors [section 141]. [10]

Answer:

1. A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant.  
Provided that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.
2. Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.
3. The following persons shall not be eligible for appointment as an auditor of a company, namely:—
  - (a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
  - (b) an officer or employee of the company;
  - (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
  - (d) a person who, or his relative or partner—
    - (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.  
Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as prescribed in rule 10 of chapter X under the act;

### Rule 10 : Disqualifications of Auditor

- (1) For the purpose of proviso to sub-clause (i) of clause (d) of sub-section (3) of section 141, a relative of an auditor may hold securities in the company of face value not exceeding rupees one lakh:
  1. Provided that the condition under this sub-rule shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities:
  2. Provided further that in the event of acquiring any security or interest by a relative, above the threshold prescribed, the corrective action to maintain the limits as specified above shall be taken by the auditor within sixty days of such acquisition or interest.
- (2) For the purpose of sub-clause (ii) of clause (d) of sub-section (3) of section 141, a person who or whose relative or partner is indebted to the company or its subsidiary or its holding or associate company or a subsidiary of such holding company, in excess of rupees five lakh shall not be eligible for appointment.
- (3) For the purpose of sub-clause (iii) of clause (d) of sub-section (3) of section 141, a person who or whose relative or partner has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company,

in excess of one lakh rupees shall not be eligible for appointment.

(4) For the purpose of clause (e) of sub-section (3) of section 141, the term "business relationship" shall be construed as any transaction entered into for a commercial purpose, except -

i. commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules or the regulations made under those Acts;

ii. (i) commercial transactions which are in the ordinary course of business of the company at arm's length price - like sale of products or services to the auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

(ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as prescribed in rule 10 of chapter X under the act; or

(iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for such amount as prescribed in rule 10 of chapter X under the act;

(e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as prescribed in rule 10 of chapter X under the act;

(f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;

(g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;

(h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;

(i) a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company.

Explanation. — For the purposes of this clause, the term "directly or indirectly" shall have the meaning assigned to it in the Explanation to section 144.

Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

**(b) What is unqualified opinion.**

**[2]**

**Answer:**

An opinion is said to be unqualified, when the Auditor concludes that the Financial Statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the Financial Statements. Or,

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The Auditor gives a Clean or Unqualified Report, when he does not have any significant reservation in respect of matters contained in the Financial Statements.

9. (a) List the differences between Audit Report and Audit Certificate.

[7]

Answer:

Basis	Audit Report	Audit Certificate
Meaning	Audit Report is a statement of collected and considered information so as to give a clear picture of the state of affairs of the business to the persons who are not in possession of the full facts.	While Audit Certificate is a written confirmation of the accuracy of the information stated there in.
Opinion	Audit Report contains the opinion of the auditor on the accounts	While Audit Certificate does not contain any opinion but only confirms the accuracy of the figures with the books of accounts.
Basis	Audit Report is made out on the basis of information obtained & books of account verified by the auditor,	while Audit Certificate is made out on the basis of the particular data capable of verification as regards accuracy.
Guarantee	Audit Report may not guarantee correctness of financial statement in absolute terms	While Audit Certificate guarantees absolute correctness of the figures & information mentioned in the certificate.
Coverage	Audit Report always covers entire accounts of the concern,	While Audit Certificate covers only certain part of the accounts of the concern.
Responsibility	Audit Report does not hold auditor responsible for anything wrong in the accounts,	While Audit Certificate makes an auditor responsible if anything mentioned in the certificate found as wrong later on.
Suggestion	Audit Report may provide certain suggestions for improvement	While Audit certificate does not provide any such suggestion.
Nature	Audit Report is based on the vouching & verification of books of accounts, voucher, assets & liabilities,	While Audit Certificate is based on checking arithmetical accuracy of the facts.
Scope	Audit Report covers all transactions done during the year,	While the Audit Certificate is very specific.
Characteristics	Audit Report is subjective as it is opinion oriented,	While Audit certificate is objective as it is fact oriented.
Form:	Audit Report is required to be presented in the prescribed format.	While Audit Certificate, except in few cases, is not required to be presented in any standard format.
Address	Audit report is addressed to the members of the company at large or appointing authority,	While Audit Certificate is addressed to particular person or sometimes may include the words like "To Whomsoever it may concern".

(b) Remuneration of Cost Auditor — Discuss.

[5]

Answer:

Remuneration of the Cost Auditor: For the purpose of sub-section (3) of section 148 —

- (a) 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;
- (b) 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.

10. Write short note (any three):

[3×4=12]

- (a) Advantages and disadvantages of Joint Audit;
- (b) Auditor's duty on Redemption of debentures;
- (c) Features of inventories that have an impact on the related audit procedures;
- (d) Types of Banking institutions prevailing in India.

Answer:

(a) Advantages of Joint Audit:

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

- i. Lower workload
- ii. Timely completion of work
- iii. Sharing of expertise
- iv. Improved quality of services
- v. Healthy competition
- vi. Quality of performance

Disadvantages of Joint Audit:

The disadvantages of Joint Audit are enumerated below;

- i. Superiority complex of some auditor
- ii. Costly for small entity
- iii. Lack of coordination in work
- iv. Uncertainty about liability of work
- v. Psychological problem
- vi. Difficulty in fixation of work among other



**(b) Auditor's duty on Redemption of debentures:**

A company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption. If debentures are redeemable it can be redeemed in any of the following way:

- (i) By way of periodical drawing i.e. by creating Debenture Redemption Reserve Account.
- (ii) By way of payment on fixed date.
- (iii) By payment whenever the company desires to do so.

Auditor's Duty:

- (i) The auditor should inspect the debentures or trust deed for the terms and conditions regarding redemption of debentures.
- (ii) He should see the Director's minute book authorizing the redemption of debentures.
- (iii) He should also vouch the redemption with the help of debenture bonds cancelled and the cash book.
- (iv) He should also examine the accounting treatment thoroughly.

**(c) 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.

**(d) There are following types of Banking institutions prevailing in India:**

- (a) Commercial banks;
- (b) Regional Rural banks;
- (c) Co-operative banks;
- (d) Development banks (more commonly known as 'term-lending institutions'); Payment Banks; and
- (e) Small Finance Banks.