

Suggested Answer_Syl16_Dec2018_Paper_12

INTERMEDIATE EXAMINATION

GROUP II

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2018

Paper- 12: COMPANY ACCOUNTS AND AUDIT

Time Allowed : 3 Hours

Full Marks : 100

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

Where considered necessary, suitable assumptions should be made and clearly indicated in the answer.

The Question paper has two sections. A and B. Both sections are to be answered as per instructions given against each.

Section–A

(Company Accounts)

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

1. Choose the correct alternative: 1×6=6
- (i) Which of the following reserves cannot be used for the purpose of issuing bonus shares?
- (A) Revaluation Reserve
 - (B) Dividend Equalization Reserve
 - (C) Capital Redemption Reserve
 - (D) General Reserve
- (ii) In Case of Life Insurance Business, Bonus may be of
- (A) One type
 - (B) Two types
 - (C) Three types
 - (D) None of the above
- (iii) Installment of principal amount of long-term loan payable within next 12 months is shown under Balance Sheet of a company under the heading
- (A) Non-current Assets
 - (B) Non-current Liabilities

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- (C) Current Assets
(D) Current Liabilities
- (iv) Which of the following is not a condition of buy-back of securities?
(A) Both fully and partly paid-up securities can be bought back
(B) Buy-back must be authorized by the Articles of Association
(C) Buy-back must be authorized by passing a special resolution in general meeting
(D) Buy-back should be completed within 1 year from the date of passing of special resolution
- (v) A banking company is required to maintain----- provision on unsecured portion of doubtful advances
(A) 25%
(B) 40%
(C) 50%
(D) 100%
- (vi) Which of the following is correct?
(A) Debenture carries a fixed rate of dividend
(B) A company limited by shares may issue irredeemable preference shares
(C) Unmarked applications are those applications that bear the stamp of the underwriter
(D) Except as provided in Section 54, a company shall not issue shares at a discount

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

Column A		Column B	
(i)	Functional Currency	(a)	Electricity Company
(ii)	Surrender Value	(b)	AS19
(iii)	Service Line Development Charges	(c)	As 11
(iv)	Contingent Rent	(d)	Insurance Company
		(e)	No match found

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

- (i) The profit on forfeiture and re-issue of equity shares are credited to Capital Redemption Reserve.
- (ii) As per Companies Act 2013, companies are not permitted to buy back their own shares out of securities premium.
- (iii) Bonus is the share of profit which is payable by the insurance company to the policyholders.
- (iv) Interest on loan is included in 'other operating expenses' under the Statement of Profit and Loss.

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Answer: 1(a)

- (i) (A)
- (ii) (C)
- (iii) (D)
- (iv) (A)
- (v) (D)
- (vi) (D)

Answer: 1(b)

Column A		Column B	
(i)	Functional Currency	(c)	As 11
(ii)	Surrender Value	(d)	Insurance Company
(iii)	Service Line Development Charges	(a)	Electricity Company
(iv)	Contingent Rent	(b)	AS19

Answer: 1(c)

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

2. (a) Following is the extract of the Balance Sheet of Xeta Ltd. As at 31st March, 2017:

Authorised Capital:	
50,000 12% Preference shares of Rs.10 each	5,00,000
4,00,000 Equity shares of Rs.10 each	<u>40,00,000</u>
	<u>45,00,000</u>
Issued and Subscribed Capital:	
24,000 12% Preference shares of Rs.10 each fully paid	2,40,000
2,70,000 Equity shares of Rs.10 each, Rs.8 paid up	21,60,000
Reserves and Surplus:	
General Reserve	3,60,000
Securities Premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2017, the Company has made final call@2 each on 2,70,000 Equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet as on 30th April, 2017 after bonus issue.

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- (b) An enterprise operates through six segments, namely, A, B, C, D, E and F. Therelevant information about these segments are given in the following table

(amounts in Rs.'000):

	A	B	C	D	E	F	Total (segment)
1. Segment Revenue							
(a) External Sales	--	550	250	150	50	50	1050
(b) Inter Segment Sales	100	100	50	200	--	50	500
2. Segment Results-Profit/(Loss)	(90)	25	(5)	(15)	5	10	--
3. Segment Assets	30	50	10	20	10	5	

Identify the reportable segments under (i) segment revenue criterion, (ii) segment result criterion and (iii) segment asset criterion as per AS17.5

Answer: 2(a)

Journal Entries in the books of Xeta Ltd.

			Rs.	Rs.
1-04-17	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of Rs.2per share on 2,70,000 equity shares due as per Board's Resolution dated...)			
20-04-17	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	1,00,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	2,15,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2017(after bonus issue)

	Rs.
Authorised Capital	
50,000 12% Preference shares of Rs.10 each	5,00,000
4,00,000 Equity shares of Rs.10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of Rs.10 each, fully paid	2,40,000
3,37,500 Equity shares of Rs.10 each, fully paid	33,75,000
(Out of above, 67,500 equity shares @Rs.10each were issued by way of bonus)	
Reserves and surplus	

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Profit and Loss Account

3,85,000

Answer: 2(b)

Calculation of reportable segments

(Rs.000)

	A	B	C	D	E	F	Total (segment)
1. Segment Revenue							
(a) External Sales --	--	550	250	150	50	50	1050
(b) Inter Segment Sales	100	100	50	200	--	50	500
Total	100	650	300	350	50	100	1550
2. Segment Results Profit/(Loss)	(90)	25	(5)	(15)	5	10	(110)/40
3. Segment Assets	30	50	10	20	10	5	125

10% of total revenue of all segments=155

Reportable segments under revenue criterion=B, C and D

10% of segment result (higher of total profit or loss in absolute figure)=11

Reportable segments under result criterion = A, B, and D

10% of total segment assets = 12.5

Reportable segments under asset criterion = A, B and D

3. (a) Following are the summarized Balance Sheets of Beta Ltd

Liabilities	31.03.17 Rs.	31.03.18 Rs.	Assets	31.03.17 Rs.	31.03.18 Rs.
Equity Share Capital (Rs.10)	4,00,000	5,00,000	Land & Building	4,00,000	3,80,000
General Reserve	1,00,000	1,20,000	Plant & Machinery	3,00,000	3,38,000
Profit & Loss (Cr.)	61,000	61,200	Inventory	2,00,000	1,48,000
Bank Loan	1,40,000	--	Trade Receivable	1,60,000	1,28,400
Trade Payable	3,00,000	2,70,400	Cash in hand	1,000	1,200
Provision for Taxation	60,000	70,000	Cash at Bank	--	16,000
			Goodwill	--	10,000
	10,61,000	10,21,600		10,61,000	10,21,600

Additional Information:

(i) Dividend paid during the year Rs.46,000

(ii) Net profit for the year Rs.1,32,200

(iii) Depreciation written-off on building Rs.20,000 and on machinery Rs.28,000

(iv) Income tax paid during the year Rs.56,000

(v) The following assets of another company were purchased for a consideration of Rs.1,00,000 and paid in shares

Assets were: Inventory Rs.40,000 and Machinery Rs.50,000

(vi) Further machinery was purchased for Rs.50,000 during the year. There was a sale of

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Machinery

Your are required to prepare a Cash Flow Statement as per AS 3

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- (b) From the following information calculate return on equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulation 2004:

- (i) Date of commercial operation of COD=01.04.2014
 (ii) Approved opening capital cost as on 01.04.2014=Rs.30,00,000
 (iii) Details of allowed additional capital expenditure:

Year	1	2	3	4
Additional Capital Expenditure (Rs.)	2,00,000	60,000	40,000	20,000

Answer: 3(a)

Cash Flow Statement For year ended 31.03.2018

Particulars	Rs.	Rs.	Rs.
1. Cash flow from operating activities			
Net profit		132200	
Add: Adjustment for non-cash expenses			
Depreciation on land and buildings	20000		
Depreciation on plant and machinery	28000	48000	
Operating profit before adjustment for w.c changes		180200	
Add: Decrease in inventory [200000-(148000-40000)]	92000		
Decrease in trade receivable (160000-128400)	31600	123600	
Less: Decrease in trade payable (300000-270400)tax paid		303800	
Less: tax paid		29600	
Net cash from operating activities		274200	218200
2. Cash flow from investing activities			
Sale of machinery		34000	
Less: purchase of machinery		50000	
			(16000)
3. Cash flow from financing activities			
Repayment of bank loan		(140000)	
Payment of dividend		(46000)	(186000)
	1+2+3		16200
Add: Opening cash and cash equivalent			1000
Closing cash and cash equivalent			17200

Workings:

Plant and Machinery A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	300000	By Depreciation	28000

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To vendor A/c	50000	By bank-sale	34000
To Bank A/c	50000	By balance c/d	338000
	400000		400000

Land and Building A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	400000	By Depreciation	20000
		By balance c/d	380000
	400000		400000

Answer: 3(b)

Calculation of Return on Equity

Particulars	Year 1	Year 2	Year 3	Year 4
A. Opening Equity (30% of Opening Capital Cost)	900000 (3000000*30%)	960000	978000	990000
B. Additional Equity (30% of Additional Expenditure)	60000	18000	12000	6000
C. Closing Equity (A+B)	960000	978000	990000	996000
D. Average Equity [(A+C)/2]	930000	969000	984000	993000
E. Return of Equity (14% of Average Equity)	130200	135660	137760	139020

4. The following is the Trial Balance of Omega Limited as on 31.03.2018:

(Figures in Rs..'000)

	Debit		Credit
Land at cost	220	Equity Capital (Shares of Rs.10each)	300
Plant and Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.03.2018)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1,670		1,670

Additional Information:

- (i) The Authorized Share Capital of the Company is 40,000 shares of Rs.10 each
- (ii) The Company on the advice of independent valuer wish to revalue the land Rs.3,60,000
- (iii) Declared final dividend @10% (over Interim Dividend of Rs.18,000)

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- (iv) Suspense account of Rs.4,000 represents cash received for the sale of some of the machinery on 01.04.2017. The cost of the machinery was Rs.10,000 and the accumulated depreciation thereon being Rs.8,000
- (v) Depreciation is to be provided on plane and machinery at 10% on cost
- You are required to prepare Omega Limited's Profit and Loss Statement for the year ended 31.03.2018 and the Balance Sheet as on that date in accordance with the Companies Act, 2013 in the Vertical Form along with the Notes on Accounts. Ignore previous years' figures and taxation.

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Answer: 4

Balance sheet Omega Limited as on 31st March, 2018

Particulars	Note No.	Amount (Rs.000)
I. Equity & Liabilities		
(1) Shareholders' Funds:		
(a) Share Capital	1	300
(b) Reserves & Surplus	2	500
(2) Non-Current Liabilities		
(a) Long Term Borrowing	3	200
(3) Current Liabilities		
(a) Trade Payable		52
(b) Other Current Liabilities	4	30
Total		1,082
II. Assets		
(1) Non-Current Assets		
Fixed Assets		
Tangible Assets	5	880
(2) Current Assets:		
(a) Inventories		86
(b) Trade Receivables		96
(c) Cash & bank balances		20
Total		1,082

Profit and Loss Statement for the year ended 31st March, 2018

Particulars	Note No.	Amount (Rs. 000)
I. Revenue from Operation		700
II. Other Income	6	2
III. Total Revenue (I+II)		702
IV. Expenses:		
(a) Purchases		320
(b) Finance Costs	7	20
(c) Depreciation (10% of 760*)		76
(d) Other expenses (60+30+88)	8	120
Total Expenses		536
V. Profit for the year (III-IV)		166

*770 (Plant and machinery at cost)- 10 (Cost of plant and machinery sold)

Notes to accounts:

1. Share Capital	(Rs. In 000)
Equity share capital	

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Authorised			
40,000 shares of Rs.10 each			400
Issued, Subscribed & called up			
30,000 shares of Rs.10 each			300
Total			300
2. Reserves & Surplus			
Securities Premium Account			40
Revaluation Reserve (360-220)			140
General Reserve			130
Profit & Loss balance			
Opening balance	72		
Profit for the period	166	238	
Less: Appropriations			
Interim Dividend		(18)	
Final Dividend (300 × 10%)		(30)	190
			500
3. Long Term Borrowings:			
10% debentures			200
4. Other Current Liability:			
Dividend			30
5. Tangible assets:			
Land			
Opening balance		220	
Add: Revaluation adjustment		140	
Closing balance			360
Plant and machinery			
Opening balance		770	
Less: Disposed off		(10)	
		760	
Less: Depreciation (172-8+76)		(240)	
Closing balance			520
Total			880
6. Other Income:			
Profit on sale of machinery:			
Sale Value of machinery		4	
Less: Book value of machinery (10-8)		(2)	2
7. Finance costs:			
Debenture interest			20
8. Other expenses:			
Factory expenses		60	
Selling expenses		30	
Administrative expenses		30	120

5. Write short notes on (any three):

4×3=12

(a) Related Party as per AS 18

(b) Re-insurance

(c) Forfeiture of Shares vis-à-vis reissue of Forfeited Shares

(d) Schedule III disclosure requirement in respect of cash and cash equivalents

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Answer: 5(a)

A related party is essentially any party that controls or can significantly influence the management or operating policies of the company during the reporting period.

AS-18, deals only with the following relationships:

Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the reporting enterprise;

Associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting enterprise is an associate or a joint venture;

Individuals owing, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise and relatives of any such individual. Here "relative" means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by that individual in his/her dealings with the reporting enterprise.

Key management personnel and relatives of such personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the reporting enterprise; and enterprise over which individual or key management personnel described as above is able to exercise significant influence.

Answer: 5(b)

Sometimes the insurer considers a particular risk too much for his capacity and may re-insure a part of the risk with some other insurer. Such an arrangement between two insurers is referred to as reinsurance. In such a case, the first insurer cannot retain all the premium on the policy for himself. Depending on the share of risk undertaken by the second insurer, proportionate premium must be ceded by the first insurer. Likewise if such a policy matures, the claim will have to be shared by both the insurers in the agreed ratio. These adjustments will have to be shown in the accounts of both the insurers. In the accounts of the first insurer, amount of claim recovered from the second insurer has to be deducted from the total claim payable by him. Similarly, the premium ceded to the second insurer has to be deducted from the total premium received. In the accounts of the second insurer, claims paid include claims paid on account of Re-insurance and premiums received include premium received on re-insurance business.

Answer: 5(c)

When a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares. If a shareholder has not paid any call on the day fixed for payment thereof and fails to pay it even after his attention is drawn to it by the secretary by registered notice, the Board of Directors pass a resolution to the effect that such shares be forfeited. Shares once forfeited become the property of the company and may be sold on such terms as directors think fit. Upon forfeiture, the original shareholder ceases to be a member and his name must be removed from the register of members.

Forfeited shares may be reissued by the company directors for any amount but if such shares are issued at a discount then the amount of discount should not exceed the actual amount received on forfeited shares. The purchaser of forfeited reissued shares is liable for payment of all future calls duly made by the Company.

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Answer: 5(d)

As per Schedule III of Companies Act 2013, Cash and Cash Equivalents shall be reported under the heading Current Assets. For the purpose of reporting Cash and Cash Equivalents shall be further classified as-

- (a) Balances with Banks,
- (b) Cheques, Drafts on Hand,
- (c) Cash on Hand,
- (d) Other (Specify nature).

Notes:

- Earmarked Balances with Banks (e.g. for Unpaid Dividend) shall be separately stated.
- Balances with Banks to the extent held as margin Money or Security against the Borrowings, Guarantees, and Other Commitments shall be disclosed separately.
- Repatriation restrictions, if any, in respect of Cash and Bank Balances shall be separately stated.
- Bank Deposits with more than 12 months Maturity shall be disclosed separately.

Section-B (Auditing)

Answer QuestionNo. 6 and any three from Question Nos. 7, 8, 9 and 10.

6. (a) Identify the correct alternative in each of the following cases:

1×6=6

(i) Internal Auditor is appointed by

- (A) Audit Committee
- (B) Shareholders in General Meeting
- (C) Extraordinary General Meeting
- (D) Board of Directors

(ii) Cost Audit Report is submitted to Board of Directors in Form No.

- (A) CRA-1
- (B) CRA-2
- (C) CRA-3
- (D) CRA-4

(iii) Check list contains the instruction to be followed by the

- (A) Internal Auditor
- (B) External Auditor
- (C) Audit Assistants
- (D) Employee of the organization

(iv) Form for Secretarial Audit Report is

- (A) MR-2

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(B) MR-3

(C) MR-4

(D) MR-5

(v) Permanent Audit file contains

(A) copies of management letters

(B) audit programme

(C) analysis of transaction and balances

(D) analysis of significant ratios and trends

(vi) Audit of debenture is covered under section

(A) 70

(B) 71

(C) 72

(D) 73

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

	Column 'A'		Column 'B'
(i)	The authority for Government Audit	(a)	Audit programme
(ii)	Details of Audit work to be performed	(b)	Comptroller an Auditor General
(iii)	Removal of Statutory Company Auditor	(c)	Audit Note Book
(iv)	Details about Name and Organization Structure	(d)	Section 140
		(e)	No match found

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

(i) The Branch Auditor shall prepare report on the Accounts of the Branch examined by him and send it to Audit Committee

(ii) Maintenance of Cost Accounting Standards is mandatory as per Section 143 of Companies Act

(iii) Routine checking is a substitute of vouching

(iv) Casual vacancy in the office of Cost Auditor is filled by Board of Directors

Answer: 6(a)

(i) (D) . Board of Directors

(ii) (C). CRA 3

(iii) (C). Audit Assistants

(iv) (B). MR-3

(v) (D) . Analysis of significant ratios and trends

(vi) (B). Section 71

Answer: 6(b)

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	Column 'A'		Column 'B'
(i)	The authority for Government Audit	(b)	Comptroller an Auditor General
(ii)	Details of Audit work to be performed	(a)	Audit programme
(iii)	Removal of Statutory Company Auditor	(d)	Section 140
(iv)	Details about Name and Organization Structure	(c)	Audit Note Book

Answer: 1(c)

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

7. (a) Discuss the method of obtaining Audit Evidences.

6

(b) Distinguish between Internal Control and Internal Check

6

Answer: 7(a)

Auditor obtains **evidence** in performing compliances and substantive procedures by any one or more of the following methods-

- (i) **Inspection**-It consists of examining records, documents, or tangible assets. Inspection of records and documents provides evidence of varying degrees of reliability depending on their nature, source and the effectiveness of internal controls over their processing.
- (ii) **Observation**-It consists of witnessing a process or procedure being performed by others.
- (iii) **Inquiry and Confirmation**-Inquiry consists of seeking appropriate information from a knowledgeable person inside or outside the entity, confirmation consists of the response to an inquiry to corroborate information contained in the accounting records.
- (iv) **Computation**-It consists of checking the arithmetical accuracy of source documents and accounting records or performing independent calculations.
- (v) **Analytical Review**-It consists of studying significant ratios and trends and investigating unusual fluctuations and items.

Answer: 7(b)

No.	Basis	Internal Control	Internal Check
1	Way of checking	In internal controls systems, work of one person is automatically checked by another	It operates in routine to doubly check every part of a transaction at the time of occurrence and recording of the same
2	Objective	Its objective is to ensure adherence to management policies, safeguarding of assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records	Its objective is to ensure that no one employee has exclusive control over any transaction or group of transactions and their recording in the books

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3	Point of Time	In an internal Control system, checking is done simultaneously with the conduct of work. Every transaction is checked as soon as it is entered	Methods of recording transactions are devised where work of an employee is checked continuously by correlating, it with the work of others
4	Thrust of system	The thrust of internal check systems is to prevent errors	The thrust of internal control lies in fixing of responsibility and division of work to avoid duplication
5	Cost Involvement	The system proves to be costly in case of small businesses because more number of employees are engaged	It is a part of internal control and a method of division of work, therefore does not add to the cost
6	Report	Internal Controls provide for built in MIS reports	The summary of day to day transaction work as report for the senior

8. (a) Discuss the functions and power of the Audit Committee. 6

(b) Discuss the procedure for appointment for first Auditor of the Company and his tenure 6

Answer: 8(a)

Constitution of an Audit committee is mandatory for the:

- (i) Every listed company; and
- (ii) Such directors or classes of the companies, as may be prescribed

An Audit committee shall have minimum 3 Directors, majority of them should be independent Directors. Majority of the members of the Audit Committee should be able to read and understand the financial statements.

Functions of Audit Committee:

- (i) For the appointment and fixation of the remuneration of Auditor
- (ii) Examination of the financial statement
- (iii) Scrutiny of Inter Corporate Loans and Investment
- (iv) Valuation of the Assets of the company
- (v) Evaluation of the internal financial control and risk management system of the entity
- (vi) Evaluation of the use of funds rose through public offers.
- (vii) Evaluation of an related party transaction

Powers of the Audit Committee

- (i) Audit Committee has the power to call for comments of the Auditor about Internal Controlsystems and the scope of the audit including its observation
- (ii) Before submission of the report to the Board, the Audit Committee have the power to reviewthe financial Statement
- (iii) Power to discuss any issue with the Statutory and Internal Auditor and the Management ofthe company in relation to matter contained in the Financial Statement

Answer: 8(b)

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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) Discuss the relevant provisions of Companies (Cost Records and Audit) Rules 2014 on applicability of Cost Audit to different sectors.

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(b) What is a qualified Audit Report? Discuss the circumstances when an Auditor shall qualify his report.

2+4=6

Answer: 9(a)

Applicability of Cost Audit

The provisions regarding applicability of cost audit is explained in Companies (Cost Records and Audit) Rules 2014. Accordingly,

- (a) The Rules have classified sectors/industries under Regulated and Non-Regulated sectors. The sectors/industries covered under Table A of the Rules are under the Regulated Sector and sectors/industries covered under Table B are under the Non-Regulated Sector.
- (b) Every company, including foreign companies defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, specified in Tables A and B, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall be required to maintain cost accounting records.

However, foreign companies having only liaison office in India and engaged in production, import and supply or trading of medical devices listed in Sl. 33 of Table B are exempted. Further, companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under subsection (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) are also excluded from the purview of the Rules.

Answer: 9(b)

A Qualified Audit Report is one where an auditor gives an opinion on the truth and fairness of Financial Statements, subject to certain reservations. The Auditor's Reservation is generally stated as: "Subject to the above, we report that the Balance Sheet shows a true and fair view."

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Qualified report is submitted by the auditor when the overall impact of all reservations or qualification taken together is not material enough to vitiate the overall true and fair view of Financial Statements, but it is important that such a matter(s) should be brought to the attention of the shareholders.

The circumstances when an auditor should qualify his report are as follows:

- (i) Where the Auditors are unable to obtain all the information and explanations which they consider necessary for the purpose of their audit, e.g.
 - (a) Absence of satisfactory documentary evidence of the existence of ownership of the material assets, such as, title deeds in respect of land
 - (b) Absence of vouchers in respect of material payments made by the Company,
 - (c) Destruction of books and records by fire or accident,
 - (d) Non-availability of books and records owing to unavoidable circumstances, such as books and records of a foreign branch with which no communication is possible.
- (ii) Where proper books of accounts have not been kept in accordance with the law
- (iii) Where the Balance Sheet and P & L Account are not in agreement with the books of account and returns.
- (iv) When the information required by law is not furnished
- (v) When the accounts do not disclose a true and fair view like-
 - (a) Where the accounting practices followed by the Company are not considered appropriate to the circumstances and nature of the business e.g. treatment of HP Sales as outright sales,
 - (b) Where there has been a change in accounting principles or procedures in relation to material items, such, valuation of stock, depreciation, treatment of by-product cost, etc. without adequate explanation and disclosure of effect of the change.
 - (c) Where difference of opinion with management has arisen regarding valuation or realisability of assets, such as Stock-in-Trade, Debtors, Loans & Advances or the extent of liabilities, contingent or otherwise,
 - (d) Where income or expenditure is not properly reflected so as to show a fair figure of profit for the year,
 - (e) Where information is not required by law to be disclosed but the disclosure of which is considered essential by the Auditors in order to show a true and fair view,
 - (f) Where there is a contravention of the provisions of the Companies Act having a bearing upon the accounts and transactions of the Company e.g. donations to political parties or for political purposes in contravention of Section 182, or contributions to charitable or other funds in excess of the limitation specified in Section 181;

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- (g) Where the Company has contravened the provisions of its Memorandum and Articles of Association.

10. Write short notes (any three):4×3=12

- (a) Auditor's duty regarding unclaimed dividend
- (b) Physical verification of Inventory and Auditor's responsibility thereof
- (c) Audit of Co-operative Society
- (d) Difference between Statutory Audit and Internal Audit

Answer: 10 (a)

In connection with the unclaimed dividend, the auditor must consider the following points:

- (i) He shall collect the list of the names of the shareholders to whom dividend could not be paid.
- (ii) He shall verify the calculation of unclaimed dividend.
- (iii) He shall verify that the unpaid dividend has been transferred to a separate account namely Unpaid Dividend Account within seven days from the expiry of 30 days allowed for declaration and payment of dividend.
- (iv) In case there is any default on the part of the company to deposit the unpaid dividend within the stipulated time as mentioned above, the company needs to pay interest @12% p.a. The auditor must verify whether there is any fault on the part of the company and if so whether they have deposited the interest and the penalty.
- (v) The auditor shall also verify whether the company has published the details of unpaid dividend in its own website and also in other website(s) approved by the government for this purpose.
- (vi) In case the company has made any payment during the year from the Unpaid Dividend Account to any shareholder on his application for the same, the auditor must verify that the payment has been made to the right person and the amount so paid is determined properly.
- (vii) In case any amount of dividend is remaining unpaid for more than seven years, the auditor shall verify whether the same along with the interest accrued thereon has been transferred by the company to IEPF. He shall verify the same based on the statement submitted by the company to the IEPF and the receipt issued by the IEPF in this context.
- (viii) The auditor shall also verify whether all the shares in respect of which unpaid dividend has been transferred to IEPF, have also been transferred to such fund.

Answer: 10 (b)

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Physical verification of inventories is the responsibility of the management of the entity. However, where the inventories are material and the auditor is placing reliance upon the physical count by the management, it may be appropriate for the auditor to attend the inventory taking. The extent of auditor's attendance at inventory taking would depend upon his assessment of the efficacy of relevant internal control procedures, and the results of his examination of the inventory records maintained by the entity and of the analytical review procedures.

According to SA-501 'Audit Evidence-Specific Considerations for Selected Items', the management ordinarily established procedures under which inventory is physically counted at least once a year to serve as a basis for the preparation of the financial statements and, if applicable, to ascertain the reliability of the entity's perpetual inventory system.

Attendance at physical inventory counting involves:

- (i) Inspecting the inventory to ascertain its existence and evaluate its condition, and performing test counts.
- (ii) Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count, and
- (iii) Obtaining audit evidence as to the reliability of management's count procedures. These procedures may serve as test of controls or substantive procedures depending on the auditor's risk assessment, planned approach and the specific procedures carried out.

Observing the performance of management's count procedures, for example, those relating to control over the movement of inventory before, during and after the count, assists the auditor in obtaining audit evidence that management's instructions and count procedures are adequately designed and implemented. In addition, the auditor may obtain copies of cut off information, such as details of the movement of inventory, to assist the auditor in performing audit procedures over the accounting for such movements at a later date.

In addition to recording the auditor's test counts, obtaining copies of the management's completed physical inventory count records assists the auditor in performing subsequent audit procedures to determine whether the entity's final inventory records accurately reflect actual inventory count results.

Answer: 10 (c)

In general while conducting audit of Co-operative society 'The auditor need to look into the followings:

1. General Points: -

- (i) The auditor should carefully go through the bye-laws of the society and see that they are being observed both in letter and spirit.
- (ii) He should examine the Register of Members of the society and individual shareholdings.
- (iii) He should test-check the internal check and control system operated by the society

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and model his audit examination based on its strengths and weaknesses.

2. **Audit of income:** He should carefully vouch the receipt of cash. Cash receipts on account of share capital should be vouched with the Register of Members. Cash received against sales should be vouched with the cash memos and invoices issued to customers as also Sales Account. Receipt of cash in respect of payment of interest and repayment of loans advanced by the society should be vouched with the loan agreements. Cash received from members towards construction of houses or their maintenance, should be vouched with the Register of Members, demands made by the society from time to time, and money receipts.

3. **Audit of Expenditure:**

- (i) He should vouch all expenditure with reference to authorization from the Managing Committee, particularly in the case of large capital expenditure, as also the bills received from individual parties, the money receipts obtained from them, and entries in the Bank Pass Book along with counter-foils of cheques.
- (ii) He should vouch the payment of loans from the loan agreements entered into with borrower members.
- (iii) He should vouch establishment expenses with reference to the resolutions of the Managing Committee, agreements with the persons concerned, and money receipts obtained from them.

Other aspects points:

- (i) He should appropriately classify overdue debts for a period from six months to five years and more, and report them to the members, with a note regarding the effects these might have on the financial position of the society.
- (ii) Similarly, he should make a special reference to the overdue amount of interest from members.
- (iii) Writing off bad debts should be after prior authorization from the Managing Committee of the society.

Answer: 10 (d)

Basis	Statutory Audit	Internal Audit
Appointing Authority	Statutory Auditor is appointed by the shareholder in the general meeting	Internal Auditor is appointed by the Board
Scope of the work	The scope of work is defined in the Companies Act	The scope of work includes the adherence of management policies and procedures and identifies the weakness in the internal control
Removal of Auditor	Statutory Auditor can be removed by the shareholders	Internal Auditor can be removed by the Board
Remuneration	It is fixed by the shareholders	It is fixed by the board
Audit Report	It is submitted to the appointing Authority	It is submitted to the Board as a suggestion to improve weakness in

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		the internal control
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