

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.

1. (a) Choose the correct answer from the given four alternatives: [6x1=6]
- (i) Which of the following item is not a part of cash flow from operating activities?
- (a) Collection from customers
 - (b) Payment to suppliers of machinery
 - (c) Payment of outstanding wages
 - (d) Advances to foreign suppliers for raw materials
- (ii) A _____ share is a free share issued without any consideration to an existing shareholder in the ratio of number of shares held by that shareholder.
- (a) Bonus
 - (b) Sweat Equity
 - (c) Preference
 - (d) None of the above
- (iii) Transfer to capital redemption reserve account is allowed from which of these profits?
- (a) Insurance fund
 - (b) Workmen's compensation fund
 - (c) Workmen's accident fund
 - (d) All of the above
- (iv) A company is a voluntary and autonomous association of certain persons with capital divided into numerous transferable _____ formed to carry out a particular purpose in common.
- (a) Debentures
 - (b) Shares
 - (c) Dividends
 - (d) None of the above
- (v) Which of the following is the advantages of buy-back
- (a) A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital.
 - (b) Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax
 - (c) Both (a) and (b)
 - (d) None of the above

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- (vi) If the maturity of debentures is more than ____ months, the company has to appoint debenture trustees to safeguard the interests of the debenture holders.
- (a) 18
 - (b) 12
 - (c) 6
 - (d) 1

Answer:

- (i) (b)
- (ii) (a)
- (iii) (d)
- (iv) (b)
- (v) (c)
- (vi) (a)

(b) Match the following:

[4×1=4]

| | Column 'A' | | Column 'B' |
|----|----------------------------|----|--|
| 1. | AS 11 | A. | Transfer to capital redemption reserve account |
| 2. | Section 33 | B. | Issue of Sweat Equity Shares |
| 3. | Section 54 | C. | Exchange difference |
| 4. | Dividend equalisation fund | D. | Issue of Application Forms for Securities |

Answer:

| | Column 'A' | | Column 'B' |
|----|----------------------------|----|--|
| 1. | AS 11 | C. | Exchange difference |
| 2. | Section 33 | D. | Issue of Application Forms for Securities |
| 3. | Section 54 | B. | Issue of Sweat Equity Shares |
| 4. | Dividend equalisation fund | A. | Transfer to capital redemption reserve account |

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

[4×1=4]

- (i) A debenture holder may receive dividend only when a company makes a profit.
- (ii) When a company purchases its own shares out of free reserves a sum equal to the nominal value of the shares so purchased shall be transferred to the general reserve account.
- (iii) Debenture is an instrument to acknowledge the creditors of the company.
- (iv) When a share is issued at a value greater than its face value it is said to be issued at a premium.

Answer:

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

Answer any three questions out of the following four questions

[3×12=36]

2. (a) Swastika Ltd. has issued 10,000 12% Debentures of ₹100 each on 1.4.2014. These debentures are redeemable after 3 years at 5% premium. Interest is payable annually on March 31. On 1.10.15 it purchases 1500 own Debentures from the market at ₹98 (Cum. Int.). These are sold away on 30.6.16 at 105 (cum). On 1.1.16, it buys 1000 Own Debentures at 104 (cum) and cancelled on 30.06.16. On 1.10.16 it buys 2000 own Debentures at ₹102 (ex-int) per Debenture for immediate cancellation. Other Debentures are redeemed on 31.03.17. Give necessary Journal entries for the years 2014-15, 2015-16 & 2016-17. [8]

Answer:

| Date | Particulars | | Dr. (₹) | Cr. (₹) |
|---------|---|------------|-------------------|-------------------|
| 1.4.14 | Bank A/c Dr. To 12% Debenture A/c | Dr. | 10,00,000 | 10,00,000 |
| 31.3.15 | Debenture Interest A/c To Bank A/c | Dr. | 1,20,000 | 1,20,000 |
| | Profit & loss A/c To Debenture Interest A/c | Dr. | 1,20,000 | 1,20,000 |
| | Profit & Loss A/c or Statement of Profit or Loss To Debenture Redemption Reserve A/c (25% of face value of debentures transferred to DRR) – assumed | Dr. | 2,50,000 | 2,50,000 |
| 1.10.15 | Own Debenture A/c Interest on Own Debenture A/c [1,500×100×12%×6/12] To Bank A/c [1,500×98] | Dr. Dr. | 1,38,000 9,000 | 1,47,000 |
| 1.1.16 | Own Debenture A/c Interest on Own Debenture A/c [1,000×100×12%×9/12] To Bank A/c [1,000×104] | Dr. Dr. | 95,000 9,000 | 1,04,000 |
| 31.3.16 | Debenture Interest A/c [10,00,000×12%] To Interest on Own Debenture A/c [2,500×100×12%] To Bank A/c | Dr. | 1,20,000 | 30,000 90,000 |
| | Profit & Loss A/c To Debenture Interest A/c | Dr. | 1,20,000 | 1,20,000 |
| | Interest on Own Debenture A/c To Profit & Loss A/c [30,000 - 9,000 - 9,000] | Dr. | 12,000 | 12,000 |
| 30.6.16 | Bank A/c [1,500×105] To Own Debenture A/c [balance being ex-int amount] To Interest on Own Debenture A/c | Dr. | 1,57,500 | 1,53,000 4,500 |

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| | | | | |
|--|---|-----|--------|--------|
| | [1,50,000×12%×3/12] | | | |
| | Own Debenture A/c To Profit on Sale of Own Deb A/c [1,53,000 -1,38,000] | Dr. | 15,000 | 15,000 |

(b) On 20.4.2016, M Ltd obtained a loan from the bank for ₹75 lakhs to be utilised as:

| Particulars | ₹ (in lakhs) |
|-----------------------------------|--------------|
| Construction of a factory | 30 |
| Purchase of Machinery | 25 |
| Working Capital | 15 |
| Advance for purchase of Furniture | 5 |

In March 2017, construction of factory was completed and machinery installed. Delivery of furniture was not received. Total interest charged by the bank for the year ending 31.3.2017 was ₹10 lakhs.

Show the treatment of interest under AS 16.

[4]

Answer:

As per AS 16, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing cost should be recognised as an expense in the periods in which they are incurred.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. As per AS 16, if an asset is ready for its intended use or sale at the time of acquisition, the same cannot be treated as a qualifying asset.

Treatment of Interest

| Items | Nature of Asset | Interest to be capitalised ₹ (in lakhs) | Interest to be charged to P&L A/c ₹ (in lakhs) |
|----------------------------------|------------------------|---|--|
| Constructions of a factory | Qualifying Asset | $(10 \times 30 / 75) = 4$ | - |
| Purchase of a Machinery | Not a qualifying Asset | - | $(10 \times 25 / 75) = 3.33$ |
| Working Capital | Not a qualifying Asset | - | $(10 \times 15 / 75) = 2$ |
| Advance in purchase of Furniture | Not a qualifying Asset | - | $(10 \times 5 / 75) = 0.67$ |
| | | 4 | 6 |

3. (a) The following information is available in the books of a Bank, as on 31st March, 2018:

| Particulars | Rate of Discount |
|---|------------------|
| Bills Discounted | 1,37,05,000 |
| Rebate on Bills Discounted (as on 01.04.2017) | 2,21,600 |
| Discount Received | 10,56,650 |

Details of Bills Discounted are as follows:

| Value of Bills (₹) | Due Date | Rate of Discount |
|--------------------|------------|------------------|
| 18,25,000 | 05.06.2018 | 12% |
| 50,00,000 | 12.06.2018 | 12% |

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| | | |
|-----------|------------|-----|
| 28,20,000 | 25.06.2018 | 14% |
| 40,60,000 | 06.07.2018 | 16% |

Calculate the Rebate on Bills Discounted as on 31.03.2018, and give necessary journal entries in the books of the Bank as on 31st March, 2018. [7]

Answer:

Computation of Rebate pertaining to period after Balance Sheet date:

| Due Date | Amount (₹) | No. of days after Balance Sheet date | Rate | Rebate (₹) |
|------------|------------|--------------------------------------|------|-----------------|
| 05.06.2018 | 18,25,000 | 30+31+5=66 | 12% | 39,600 |
| 12.06.2018 | 50,00,000 | 30+31+12=73 | 12% | 1,20,000 |
| 25.06.2018 | 28,20,000 | 30+31+25=86 | 14% | 93,021 |
| 06.07.2018 | 40,60,000 | 30+31+30+6=97 | 16% | 1,72,633 |
| | | | | 4,25,254 |

Computation of amount to be credited to Profit and Loss Account:

| Particulars | ₹ |
|--|-----------------|
| Opening Balance of Rebate on Bills Discounted | 2,21,600 |
| Add: Discount received during the year | 10,56,650 |
| | 12,78,250 |
| Less: Closing balance of Rebate on Bills Discounted | (4,25,254) |
| Amount to be credited to Profit and Loss A/c | 8,52,996 |

| Sl. No | Particulars | Dr. (₹) | Cr. (₹) |
|--------|--|----------|----------|
| 1 | Rebate on Bills Discounted A/c Dr. To, Discount Received A/c (Being, transfer of Opening Balance in Rebate A/c to Discount Received) | 2,21,600 | 2,21,600 |
| 2 | Discount Received A/c Dr. To, Rebate on Bills Discounted A/c (Being, provision for Unexpired Discount Charges as at year-end) | 4,25,254 | 4,25,254 |
| 3 | Discount Received A/c Dr. To, Profit and Loss A/c (Being, Discount Earned Income for the year credited to Profit and Loss A/c) | 8,52,996 | 8,52,996 |

(b) From the following information, calculate Net Profit before Taxation and Extraordinary item:

| Particulars | Closing (₹) | Opening (₹) |
|----------------------------------|-----------------|---------------|
| Profit & Loss Account | 2,24,000 | 24,000 |
| Reserve | 2,25,000 | 75,000 |
| Proposed Dividend | 48,000 | 40,000 |

Additional information are:

1. Refund of Tax- ₹1500
2. Provision for tax made during the current year- ₹70,000

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3. Interim Dividend paid during the year- ₹60,000
4. Loss due to Earthquake- ₹3,00,000
5. Insurance Proceeds from earthquake disaster settlement- ₹1,50,000

[5]

Answer:

Calculation of Net Profit Before Taxation and Extraordinary Item

| Particulars | ₹ |
|---|-----------------|
| Net Profit as per Profit & Loss A/c [₹2,24,000 - ₹24,000] | 2,00,000 |
| Add: Proposed Dividend for the current year | 48,000 |
| Add: Interim Dividend paid during the year | 60,000 |
| Add: Transfer to Reserve | 1,50,000 |
| Add: Provision for Tax made during the Current Year | 70,000 |
| Less: Refund of Tax | (1,500) |
| Add: Extraordinary Item(Loss due to Earthquake) | 3,00,000 |
| Less: Extraordinary items (i.e. Insurance proceeds from earthquake disaster settlement) | (1,50,000) |
| Net Profit before Taxation and Extraordinary Item | 6,76,500 |

4. From the details given below prepare Balance Sheet of R Ltd. as at 31st March,2019 as per the Schedule III to The Companies Act 2013:

| | (₹in "000) |
|--|------------|
| P & L A/c(Dr.) | 50 |
| 12% Debentures | 300 |
| Proposed Dividend | 20 |
| Equity Share Capital (₹10 each) | 1750 |
| Cheques & Drafts on Hand | 48 |
| 15% Pref. Share Capital (₹100 each) | 1250 |
| Prepaid Expenses | 50 |
| Bank Overdraft | 65 |
| Interest accrued on Debentures of JK Steels | 12 |
| Building under Construction | 185 |
| 2500,12% JK Steel Deb. of ₹100 each, ₹80 paid up | 200 |
| Premium on Red. Of Debentures | 90 |
| Application money pending allotment | 40 |
| Bills Payables | 75 |
| Calls-in-Advance | 5 |
| Employees' earned leave payable on Retirement | 45 |
| Stores & Spares | 50 |
| Securities Deposit for Telephone | 25 |
| Brands | 210 |
| Computer Software under Development | 20 |
| Bills Receivables | 270 |
| Plant & Machinery | 2220 |
| 12% Debentures of Reliance Ltd. (20% Redeemable within 1 year) | 100 |
| Investment in Land & Building | 200 |

Note: Bills Discounted but not yet matured ₹60,000, Dividend on Preference Shares are in arrears for 2 years. [12]

Answer:

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R LTD. BALANCE SHEET AS AT 31ST MARCH, 2019

| Particulars | Note No | 2018-2019 (₹ in "000) | 2017-2018 (₹ in "000) |
|--|---------|--------------------------|--------------------------|
| I. EQUITY AND LIABILITIES | | | |
| (1) Shareholder's Funds | | | |
| (a) Share Capital | 1 | 3000 | |
| (b) Reserves and Surplus [P & L A/c(Dr.)] | | (50) | |
| (2) Share Application Money pending Allotment | | | |
| | | 40 | |
| (3) Non-Current Liabilities | | | |
| (a) Long Term Borrowings [12% Debentures] | | 300 | |
| (b) Other Long Term Liabilities (Premium on Red. Of Debentures) | | 90 | |
| (c) Long term Provisions (Earned Leave) | | 45 | |
| (4) Current Liabilities | | | |
| (a) Trade Payables | | 75 | |
| (b) Other Current Liabilities | 2 | 70 | |
| (c) Short Term Provisions (Proposed Dividend) | | 20 | |
| Total | | 3590 | |
| II. ASSETS | | | |
| (1) Non-Current Assets | | | |
| (a) Fixed Assets | | | |
| (i) Tangible Assets (Plant & Machinery) | | 2220 | |
| (ii) Intangible Assets (Brands) | | 210 | |
| (iii) Capital Work in progress (Building) | | 185 | |
| (iv) Intangible Assets under development | | 20 | |
| (b) Non-Current Investments | 3 | 480 | |
| (c) Long-term Loans & Advances (Security) | | 25 | |
| (2) Current Assets | | | |
| (a) Current Investments (Deb of Reliance Ltd.) | | 20 | |
| (b) Inventories (Stores & Spares) | | 50 | |
| (c) Trade Receivables(B/R) | | 270 | |
| (d) Cash and Cash Equivalents (Ch. & DD) | | 48 | |
| (e) Other Currents Assets | 4 | 62 | |
| Total | | 3590 | |

Notes to Accounts:

NOTE 1: SHARE CAPITAL

| Particulars | 2018-2019 (₹ in "000) | 2017-2018 (₹ in "000) |
|-------------------------------------|--------------------------|--------------------------|
| 175000 Equity Shares of ₹10 each | 1750 | |
| 12500,15% Pref. Shares of ₹100 each | 1250 | |
| | 3000 | |

NOTE 2: OTHER CURRENT LIABILITIES

| Particulars | 2018-2019 (₹ in "000) | 2017-2018 (₹ in "000) |
|------------------|--------------------------|--------------------------|
| Bank Overdraft | 65 | |
| Calls in Advance | 5 | |
| | 70 | |

NOTE 3: NON-CURRENT INVESTMENTS

| Particulars | 2018-2019 (₹ in "000) | 2017-2018 (₹ in "000) |
|-------------|--------------------------|--------------------------|
| | | |

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| | | |
|--|-----|--|
| 2500,12% JK Steel Deb. Of ₹100 each, ₹80 paid up | 200 | |
| 12% Debentures of Reliance Ltd. [100-20] | 80 | |
| Investment in Land & Building | 200 | |
| | 480 | |

NOTE 4: OTHER CURRENT ASSETS

| Particulars | 2018-2019 (₹ in "000) | 2017-2018 (₹ in "000) |
|---|--------------------------|--------------------------|
| Prepaid Expenses | 50 | |
| Interest accrued on Debentures of JK Steels | 12 | |
| | 62 | |

NOTE 5: CONTINGENT LIABILITIES & COMMITMENTS

| Particulars | 2018-2019 (₹ in "000) | 2017-2018 (₹ in "000) |
|--|--------------------------|--------------------------|
| (i)Contingent Liabilities | | |
| Bills Discounted but not yet matured | 60 | |
| (ii)Commitments | | |
| (a)Uncalled Liability on partly paid Debentures held as Investments [2500,12% JK Steel Debentures of ₹100 each, ₹80 paid up] [2500x20] | 50 | |
| (b)Arrears of Fixed Cumulative dividends on Preference Shares [₹1250000x15/100x2] | 375 | |

5. Write short note (any three):

[3×4=12]

- (a) Accounting treatment of Borrowing Costs as per AS 16**
- (b) Escrow Account**
- (c) Provisioning Arrangements for Non-Performing Assets**
- (d) Importance of Cash flows**

Answer:

(a)Accounting treatment of Borrowing Costs as per AS 16:

- (a) Borrowing costs should either be capitalized or charged to P&L Account depending on the situation but deferment is not permitted.
- (b) Borrowing costs are capitalized as part of cost of qualifying asset when it is probable that they will result in future economic benefits and cost can be measured reliably - other borrowing costs are charged to P&L Account in the accounting period in which they are incurred.
- (c) Capitalization, on one hand reflects closely the total investment in the asset and on the other hand to charge the cost to future period against accrual of revenue.
- (d) Notional interest costs are not allowed to be capitalized.
- (e) A qualifying asset is an asset that necessarily takes a substantial period of time (usually a period of 12 months unless otherwise justified on the basis of facts and circumstances) to get ready for its intended use or sale.

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- (f) Capitalization should be suspended during extended period in which active development is interrupted.
- (g) Capitalization should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.
- (h) Capitalization also ceases when part is completed, which is capable of being used independently of the whole.

(b) Escrow Account:

Regulation 10(1) of the Securities and Exchange Board of India provides that a company shall, as and by way of security for performance of its obligations on or before the opening of the offer of re- purchase, deposit in an escrow account such sum as is specified in 10(2), that is:

- (a) If the consideration payable does not exceed ₹ 100 crores, 25% of the consideration;
- (b) If the consideration payable exceeds ₹100 crores, 25% up to ₹ 100 crores, and 10% thereafter.

Escrow account means an account in which money is held until a specified duty is performed, i.e., till the consideration for buy-back of shares is paid to the shareholders. This account consists of cash deposited with a scheduled commercial bank, or bank guarantee in favour of the merchant banker, or deposit of acceptable securities with appropriate margin, with the merchant banker, or combination of these.

(c) Provisioning Arrangements for Non-Performing Assets:

| Category of Advances | Rate (%) |
|--|-----------------|
| Standard Advances | |
| (a) Direct advances to agricultural and SME | 0.25 |
| (b) Advances to Commercial Real Estate (CRE) Sector | 1.00 |
| (c) All other loans | 0.40 |
| Sub-standard Advances | |
| Secured Exposures | 15 |
| Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available. | 20 |
| Unsecured other loans | 25 |
| Doubtful Advances – Unsecured Portion | 100 |
| Doubtful Advances – Secured Portion | |
| For Doubtful upto 1 year | 25 |
| For Doubtful > 1 year and upto 3 years | 40 |
| For Doubtful > 3 years | 100 |

(d) Importance of Cash flows:

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Cash flows are crucial to business decisions. Cash is invested in the business and the rationality of such investment is evaluated taking into account the future cash flows it is expected to generate. Economic value of an asset is derived on the basis of its ability to generate future cash flows. Economic value of an asset is given by the present value of future cash flows expected to be derived from the asset.

Profit is an accounting concept. Profit is derived on accrual assumption. Profit and cash flows from operational activities are not the same. Dividend decision is taken on the basis of profit, although it is to be paid in cash. Similarly, debt servicing capacity of a company is determined on the basis of cash flows from operations before interest. Ploughing back of profit is a much talked about source of financing modernization, expansion and diversification. Unless retained profit is supported by cash, ploughing back is not possible. Thus cash flows analysis is an important basis for making several management decisions.

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) Secretarial Audit is covered under

- (a) Section 204**
- (b) Section 148**
- (c) Section 139**
- (d) None of the above**

(ii) Audit Procedures to obtain audit evidences include

- (a) Compliance Procedure**
- (b) Substantive Procedure**
- (c) Both (a) and (b)**
- (d) Neither (a) nor (b)**

(iii) An effective internal control system consists of which of the following steps?

- (a) Control Environment**
- (b) Assessment of Risk**
- (c) Control Activities**
- (d) All of the above**

(iv) SA 230 is related to which of the following?

- (a) Audit Documentation**
- (b) Audit Planning**
- (c) Appointment of auditors**
- (d) None of the above**

(v) USEPA stands for

- (a) United States Environmental Practice Agency**
- (b) United States Environmental Protection Agency**
- (c) United States Environmental Protection Agreement**
- (d) United States Efficient Protection Agency**

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(vi) Transaction Audit contains which of the following

- (a) Expenditure Audit & Receipts Audit
- (b) Expenditure Audit & Income Audit
- (c) Payments Audit & Receipts Audit
- (d) None of the above

Answer:

- (i) — (a)
- (ii) — (c)
- (iii) — (d)
- (iv) — (a)
- (v) — (b)
- (vi) — (a)

(b) Match the following:

[4×1=4]

| | Column 'A' | | Column 'B' |
|----|--|----|-----------------------------------|
| 1. | To ensure that expenditure is made according to limit. | A. | Using the work of another Auditor |
| 2. | CRA 2 | B. | Cannot be its Cost Auditor |
| 3. | SA 600 | C. | Audit against provision of funds |
| 4. | Internal auditor | D. | Appointment of Cost Auditor |

Answer:

| | Column 'A' | | Column 'B' |
|----|--|----|-----------------------------------|
| 1. | To ensure that expenditure is made according to limit. | C. | Audit against provision of funds. |
| 2. | CRA 2 | D. | Appointment of Cost Auditor |
| 3. | SA 600 | A. | Using the work of another Auditor |
| 4. | Internal auditor | B. | Cannot be its Cost Auditor |

(c) Say True or False for the following question:

[4×1=4]

- (i) An audit report should have a proper title.
- (ii) Test checking depends upon the statistical technique applied.
- (iii) Operational Audit is process based.
- (iv) A voucher is a piece of substantiating evidence, in the form of a written record of expenditure, disbursement, or completed transaction.

Answer:

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

Answer any three questions out of the following four questions

[3×12=36]

7. (a) List the Methods to Obtain Audit Evidence.

[5]

Answer:

Methods to Obtain Audit Evidence Auditor obtains evidence in performing compliance 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.

(b) Internal audit is an important management tool. Discuss. [7]

Answer:

Internal audit is an important management tool for the following reasons:

- a. Internal audit ensures compliance of Companies (Auditors Report) Order, 2016.
- b. It ensures compliance of accounting standards and policies.
- c. It ensures reliability of MIS through internal audit's independent appraisal and review.
- d. It looks into the standard of efficiency of business operation.
- e. It can evaluate various problems independently and suggest improvement.
- f. This system makes the internal control system effective.
- g. It ensures the adequacy, reliability, accuracy and understandability of financial and operational data.
- h. It performs as an integral part of 'Management by system'.
- i. It can add valuable assistance to management in acquiring new business, promoting new products and expansion or diversification of business etc.

8. (a) Discuss the provisions for reporting of Fraud by Auditor. [9]

Answer:

Reporting of Frauds by Auditor:

1. If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees one crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.
2. The auditor shall report the matter to the Central Government as under:-
 - (a) the auditor shall report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than two days of his knowledge of the fraud, seeking their reply or observations within forty-five days;
 - (b) 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 from the date of receipt of such reply or observations;
- (c) 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 has not received any reply or observations;
 - (d) 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;
 - (e) the report shall be on the letter-head of the auditor containing postal address, e-mail address and contact telephone number or mobile number and be signed by the auditor with his seal and shall indicate his Membership Number; and
 - (f) the report shall be in the form of a statement as specified in Form ADT-4.
3. In case of a fraud involving lesser than the amount specified in sub-rule (1), the auditor shall report the matter to Audit Committee constituted under section 177 or to the Board immediately but not later than two days of his knowledge of the fraud and he shall report the matter specifying the following:-
- (a) Nature of Fraud with description;
 - (b) Approximate amount involved; and
 - (c) Parties involved.
- The following details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) during the year shall be disclosed in the Board's Report:- (a) Nature of Fraud with description; (b) Approximate Amount involved; (c) Parties involved, if remedial action not taken; and (d) Remedial actions taken.
 - The provision of this rule shall also apply, mutatis mutandis, to a Cost Auditor and a Secretarial Auditor during the performance of his duties under section 148 and section 204 respectively.
 - No duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred to in sub-section (12) if it is done in good faith.
 - The provisions of this section shall mutatis mutandis apply to—
 - (a) the cost accountant in practice conducting cost audit under section 148; or
 - (b) the company secretary in practice conducting secretarial audit under section 204.
 - If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

(b) Discuss the provisions for re-appointment of retiring auditor.

[3]

Answer:

A retiring auditor may be re-appointed at an annual general meeting, if—

- (a) he is not disqualified for re-appointment;
- (b) he has not given the company a notice in writing of his unwillingness to be re-appointed;
- (c) a special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed;

Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company;

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Where provision of section 177 is applicable i.e., constitution of Audit Committee, all appointments, including the filling of a casual vacancy of an auditor shall be made after taking into account the recommendations of such committee.

9. (a) What is the procedure to be followed for fixing the remuneration of a cost auditor? [4]

Answer:

Rule 14 of the Companies (Audit and Auditors) Rules, 2014 has laid down the procedure of appointment and fixing the remuneration of a cost auditor.

In the case of companies which are 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 on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;
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;

In the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

(b) What are the features of a Qualified Report? [8]

Answer:

The features of a Qualified Report are –

Clarity: The Auditor must express the nature of qualification, in a clear and unambiguous manner.

Explanation: Where the Auditor answers any of the statutory affirmations in the negative or with a qualification, his Report shall state the reasons for such answer.

Placement: All qualifications should be contained in the Auditor's Report. When there are Notes, which are subject matter of a qualification, the same should preferably be annexed to the Auditors' Report. However a reference to the Notes to Accounts in the Auditors' Report does not automatically become a qualification.

Subject to: The words "subject to" are essential to state any qualification. The qualification should be preceded by words such as "Subject to" or "Except that" to make it clear that he is making an exception.

Nature of Qualification: Vague statements, the effect of which on accounts cannot be ascertained, like, 'The debtors balances are subject to confirmation', 'No provision for taxation has been made in view of the loss during the year', etc. should be avoided.

Violation of Law: Where the Company has committed an irregularity resulting in a breach of law, the Auditor should bring the same to the notice of the shareholders by properly qualifying his report.

Quantification: The Auditors should quantify, wherever possible, the effect of these qualifications on the Financial Statements if the same is material. Where the effect of qualification cannot be accurately quantified, the Auditor may reflect the effect on the basis of Management estimates, after carrying out necessary audit tests on such estimates.

10. Write short notes on (any three):

[3x4=12]

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- (a) Responsibility of Joint Auditor.**
- (b) Auditing and Assurance Standards Relating to Audit of Fixed Assets.**
- (c) Audit of Capital Reserve and Surplus of Banks.**
- (d) Audit of Alteration of Share Capital.**

Answer:

(a) Responsibility of Joint Auditor.

SA 299 issued by The Institute of Cost Accountants of India on "Responsibility of Joint Auditor" lay down the responsibilities on joint auditors.

In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him. On the other hand, all the joint auditors are jointly and severally responsible –

- in respect of the audit work which is not divided among the joint auditors and is carried out by all of them;
- in respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors. It may, however, be clarified that all the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the nature,
- timing or extent of the audit procedures agreed upon among them; proper execution of these audit procedures is the separate and specific responsibility of the joint auditor concerned;
- in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
- examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute; and
- for ensuring that the audit report complies with the requirements of the relevant statute.

(b) Auditing and Assurance Standards Relating to Audit of Fixed Assets.

The term Property, plant and equipment in respect of those entities which are required to comply with the relevant Revised AS refers to such tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

An asset can be classified as a PPE or otherwise, depending upon the use to which it is put or intended to be put. For example, assets which are classified as PPE in one type of business may be considered as current assets in another. Similarly, the same asset may be classified differently in an entity at different points of time. The recognition of Property, Plant and Equipment should be done as per the principles laid down in the "relevant applicable AS".

(c) Audit of Capital Reserve and Surplus of banks

Capital:

- Examine the opening balance of capital
- Examine with special resolution of shareholder or MOA about increase in authorized capital during the year
- Examine with prospectus about increase in subscribed/ paid up capital
- Examine with Government notification for any fresh contribution from them.

Reserve and Surplus:

To examine the opening balance of different type of Reserve.

- Addition/ deduction from reserves.
- Reason for appropriation of any fund from such account.
- Dividend paid by bank.
- In respect of foreign branch ensure compliance with foreign laws.

(d) Audit of Alteration of Share Capital.

Alteration of Share Capital [Section 61]-

- Confirm that alteration was authorised by articles.
- Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained.
- Verify that alteration had been effected in copies of Memorandum, Articles, etc.
- Obtain the reasons for which the memorandum of the company is altered.
- Check whether there is any change in the voting percentage of shareholders due to consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares.
- To confirm that the alter share capital's denomination should be more than R1.
- Verify that proper accounting entries have been passed. Register of members may also be checked to see that the necessary alteration have been effected therein.