Paper 12 (Company Accounts and Audit)

Test Paper—I/12/CAA/2012/T-1

[100 Marks]

Section A

1. Write a note on components of Financial Statement. **[5]**

2. **(a)** Indicate the correct answer (give the workings):

(i) Mr. RAKESH BEHARI bought a forward contract for three months of US$ 1,00,000 on 1st December at 1 US$ = ₹47.10 when exchange rate was US$ 1 = ₹47.11. On 31st December when he closed his books, exchange rate was US$ 1 = ₹47.15. On 31st January, he decided to sell the contract at ₹47.18 per dollar. The profits from contract to be recognized in the P&L A/c will be :

A. ₹1,000
B. ₹5,000
C. ₹8,000
D. None of these. **[2]**

(ii) The fair market values of Pension Plan assets of Allen LTD. at the begining of year 2011-12 was ₹7,00,000. The employer contribution to the plan and Benefit payments made to retire during the year were ₹1,00,000 and ₹40,000 respectively. If the actual return on pension Plan assets is ₹50,000, what would be the Fair market value of pension plan at end of year 2011-12 (As per-AS-15)?

A. ₹8,00,000;
B. ₹8,10,000;
C. ₹8,30,000;
D. Insufficient information. **[2]**

(iii) Lakhpati Bank has followed the policies for retirement benefits as under:

(a) Leave encashment is accounted for on "PAY-AS-YOU-GO" method.
(b) Contribution to the gratuity fund is made based on actuarial valuation at the year end.

Comment whether the policy is in accordance with AS-15. **[2]**

(b) Write the objectives of AS – 26. **[3]**

(c) Compute EPS:

Net profit for 2010 ₹ 22,00,000

Net profit for 2011 ₹ 30,00,000

(i) Nos. of shares outstanding prior to Right Issue: 5,00,000 shares
(ii) Right Issue: one new share for 5 outstanding i.e. 1,00,000 new shares
(iii) Right price: ₹ 15
(iv) Last date of right option: 1st March 2011
(v) Fair value prior to the right option on 1st March 2011: ₹ 21 per equity share. **[6]**

or,

Tulip Ltd. has taken the assets on lease from MAX Impex Ltd. The following information is given below:

(i) Lease Term = 4 years
(ii) Fair value at inception of lease = ₹ 16,00,000
(iii) Lease Rent = ₹ 5,00,000 p.a. at the end of year
(iv) Guaranteed Residual Value = ₹ 1,00,000
(v) Expected Residual Value = ₹ 2,00,000
(vi) Implicit Interest Rate = 14.97%

How the accounting is done in the book of lessor ? **[6]**

Section B

3. ABC Ltd. issued 10,000 Equity Shares of ₹100 each at a premium of ₹15 each. Ninety per cent of the issue was underwritten by Ashmit & Co. at a Commission of 1% on the Nominal Value. Applications were received for 8,000 Shares and allotment was fully made. All the money's due from allottees was received in one installment. The accounts with Ashmit & Co. were settled. Show the Journal Entries to record the transactions. **[6]**

or,
answer (a) and (b)

(a) Indicate the correct answer:
When interest on own debentures becomes due it will be credited to
(i) Profit & Loss Account
(ii) Own Debentures Account
(iii) Debentures Interest Account
(iv) Interest on own Debentures Account **[1]**

(b) Journalize the following transactions. Narration is not required:
Issue of 12% 1,00,000 debentures of ₹ 100 each
(i) at par and redeemable at par.
(ii) at 10% discount and redeemable at par.
(iii) at 10% premium and redeemable at par.
(iv) at 10% premium and redeemable at a premium of 5%.
(v) at par and redeemable at a premium of 5%. **[5]**

4. On 1st November, 2011 squash Ltd. was incorporated with an authorized capital of ₹200 Crores. It issued to its promoters equity capital of ₹10 Crores which was paid for in full. On that day it purchased the running business of Jam Ltd. for ₹40 Crores and allotted at par equity capital of ₹40 Crores in discharge of the consideration. The net assets taken over from Jam Ltd. were valued as follows: Fixed Assets ₹30 Crores, inventory ₹2 Crores, customers' dues ₹14 Crores and creditors ₹6 Crores. Squash Ltd. carried on business and the following information is furnished to you:

(i) Summary of cash/bank transactions (for year ended 31st October, 2012)

Particulars		**(₹ in Crores)**
Equity capital raised: Promoters (as shown above) Other	 10 50	 60
Collections from customers		800
Sale proceeds of fixed assets (cost ₹18 Crores)		4
		864
Payment to suppliers	400	
Payment to employees	140	
Payment to expenses	100	640
Investments in Upkar Ltd.		20
Payment to suppliers of fixed assets:	120	
Instalment due	10	130
Interest		54
Tax payment		10
Dividend		10
Closing cash / bank balance		864

(ii)

Particulars		(₹ in Crores)
On 31 st October , 2012 squash Ltd.'s assets and liabilities were:		
Inventory at cost		3
Customers' dues		80
Prepaid expenses		2
Advance to suppliers		8
Amount due to suppliers of goods		52
Amounts due to suppliers of fixed assets		150
Outstanding expenses		6

(iii) Depreciation for the year under:

(a) Companies Act, 1956 ₹36 Crores
(b) Income Tax Act, 1961 ₹40 Crores

(iv) Provide for tax at 38.5% of "total income". There are no disallowed expenses for the purpose of income taxation. Provision for tax is to be round off.

For squash Ltd. prepare:

(a) Revenue statement for the year ended 31st October, 2012 and
(b) Balance sheet as on 31st October, 2012 from the above information. **[10]**

5. (a) Indicate the correct answer:

AS-3 on Cash Flow Statement classifies the activities into three types namely :

(i) Operating Activities
(ii) Investing Activities
(iii) Financing Activities
(iv) None of above **[1]**

(b) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:

Particulars	₹ (in lakhs)	₹ (in lakhs)
Net Profit		60,000
Add: Sale of Investments		70,000
Depreciation on Assets		11,000
Issue of Preference Shares		9,000
Loan raised		4,500
Decrease in Stock		12,000
		1,66,500
Less: Purchase of Fixed Assets	65,000	
Decrease in Creditors	6,000	
Increase in Debtors	8,000	
Exchange gain	8,000	
Profit on sale of investments	12,000	
Redemption of Debenture	5,700	
Dividend paid	1,400	
Interest paid	945	1,07,045
		59,455
Add: Opening cash and cash equivalent		12,341
Closing cash and cash equivalent		71,796

[5]

6. Information relating to five segment of Moon Light Ltd. is as under: (₹ in lakhs)

Segments	L	M	N	O	Total
Segment Revenue	350	250	100	300	1,000
Segment Result	(60)	90	50	(30)	50
Segment Assets	55	140	65	40	300

As a cost accountant of this company management wishes to know from you which company need to be reported. **[3]**

7. The Balance Sheets of Amit Ltd. and Amita Ltd. as on 31.03.2012 were as follows:

Balance Sheet as on 31.03.2012

Liabilities	Amit Ltd. (₹)	Amita Ltd. (₹)	Assets	Amit Ltd. (₹)	Amita Ltd. (₹)
Equity Share capital (₹ 100)	8,00,000	3,00,000	Building	2,00,000	1,00,000
			Machinery	5,00,000	3,00,000
10% Preference Share capital (₹ 100)	–	2,00,000	Furniture	1,00,000	60,000
			Investment: 600 shares of Small Ltd.	60,000	—
General Reserve	3,00,000	1,00,000	Stock	1,50,000	1,90,000
Profit and Loss A/c	2,00,000	1,00,000	Debtors	3,50,000	2,50,000
Creditors	2,00,000	3,00,000	Cash and Bank	90,000	70,000
			Preliminary Expenses	50,000	30,000
	15,00,000	**10,00,000**		**15,00,000**	**10,00,000**

Amit Ltd. has taken over the entire undertaking of Amita Ltd. on 30.09.2012, on which date, the position of Current Assets except Cash and Bank balances and Current Liabilities were as

	Amit Ltd. (₹)	Amita Ltd. (₹)
Stock	1,20,000	1,50,000
Debtors	3,80,000	2,50,000
Creditors	1,80,000	2,10,000

Profits earned for the half year ended on 30.09.2012 after charging depreciation as 5% on building, 15% on machinery and 10% on furniture, are:

Amit Ltd. ₹ 1,02,500 ; Amita Ltd. ₹ 54,000

On 30.08.2012 both companies have declared 15% dividend for 2011-12.

Goodwill of Amita Ltd. has been valued at ₹ 50,000 and other Fixed assets at 10% above Amit their book values on 31.03.2012. Preference shares of Amita Ltd. are to be allotted 10%. Preference Shares of Amit Ltd. and Equity shareholders of Amita Ltd. are to receive requisite number of equity shares of Amit Ltd. valued at ₹150 per share on satisfaction of their claims.

Show the Balance Sheet as of 30.09.2012 assuming absorption is through by that date. **[10]**

or,

A Ltd. and B Ltd. were amalgamated on and from 1st April, 2012. A new company C Ltd. was formed to take over the business of the existing companies. The Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2012 are given below :

The Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2012 (₹in lakhs)

Liabilities	**A Ltd.**	**B Ltd.**	**Assets**	**A Ltd.**	**B Ltd.**
Share Capital Equity Shares of ₹100 each	800	750	Fixed Assets		
12% Preference Shares of ₹100 each	300	200	Land and Building	550	400
Reserves and Surplus			Plant and Machinery	350	250
Revaluation Reserve	100	150	Investments	150	50
General Reserve	150	170	Current Assets		
Investment Allowance Reserve	50	50	Loans and Advances		
Profit and Loss Account	50	30	Stock	350	250
Secured Loans 10% Debentures (Rs. 100 each)	60	30	Sundry Debtors	250	300
Current Liabilities and provisions					
Sundry Creditors	270	120	Bills Receivable	50	50
Bills Payable	150	70	Cash and Bank	300	200
	2,000	1,500		2,000	1,500

Additional Information:

(i) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹100 each so as to maintain the same amount of interest.
(ii) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹150 per share (face value of ₹100).
(iii) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹30 each, having a face value of ₹10 per share.
(iv) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2012 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. **[10]**

8. The following is the Balance Sheet of Sweet Ltd. as at 31.3.2012:

Liabilities	₹	Assets	₹
Share Capital :		Fixed Assets:	
2,000 Equity Shares of ₹ 100, ₹ 75 paid up	1,50,000	Land & Buildings	4,00,000
6,000 Equity Shares of ₹ 100, ₹ 60 paid up	3,60,000	Plant & Machineries	3,80,000
2,000 10% Pref. Share of ₹ 100, fully paid up	2,00,000	Current Assets:	
10% Debentures (floating charge on all assets)	2,00,000	Stock at Cost	1,10,000
Int. accrued on Deb. (also secured as above)	10,000	Sundry Debtors	2,20,000
Sundry Creditors	4,90,000	Cash at Bank	60,000
		Profit and Loss A/c	2,40,000
Total	**14,10,000**	**Total**	**14,10,000**

On that date, the Company went into Voluntary Liquidation. The dividends on Preference Shares were in arrears for the last two years. Sundry Creditors include a loan of ₹ 90,000 on Mortgage of Land and Buildings. The assets realized were as under: (a) Land & Buildings ₹ 3,40,000; (b) Plant & Machinery ₹ 3,60,000; (c) Stock ₹ 1,20,000;and (d) Sundry Debtors ₹ 1,60,000.

Interest accrued on Loan on Mortgage of Buildings upto the date of payment amounted to ₹ 10,000. The expenses of Liquidation amounted to ₹4,600. The Liquidator is entitled to a remuneration of 3% on all the assets realized (except cash at bank) and 2% on the amounts distributed among Equity Shareholders. Preferential Creditors included in Sundry Creditors amount ₹ 30,000. All payments were made on 30.06.2012.

Prepare the Liquidator's Final Statement of Account. **[5]**

Section C

Answer Question 9 and any three from the rest

9. Comment on the following based on legal provisions:

(a) In auditing, the concept of materiality can be judged only in relative context.

(b) Auditor's primary job is to detect errors and frauds.

(c) Audit is concerned with ethics of business.

(d) A company can refuse to provide access to its books of accounts to the company's auditor outside normal working hours of the company, as it will inconvenience the accounts staff.

(e) The appointment of Mr. A as statutory auditor was held to be void ab initio. So the company holds another annual general meeting and appoints Mr. B, through a special resolution.

[2X5]

10. (a) Auditors of M/s FBG (P) Ltd. were changed for the accounting year 2012-13. The closing stock of the company as on 31.3.2012 amounting to Rs. 200 lacs continued as it is and became closing stock as on 31.3.2013. The auditors of the company propose to exclude from their audit programme the audit of closing stock of Rs. 200 lacs on the understanding that it pertains to the preceding year which was audited by another auditor. Give your comments with respect to Standards on Auditing.

(b)"Secret Reserves can remain no longer secret". Discuss.

(c) How will you vouch/verify the following:

(i) Foreign travel expenses

(ii) Receipt of capital subsidy **[3+3+4]**

11.(a) The SBH College, an institution managed by MT Trust, has received a grant of ₹ 3 crore from Government nodal agencies for funding a project of research on rural health systems in India. Draft an audit programme for auditing this fund in the accounts of the college.

(b) 'At the AGM of DEF Ltd., Mr. M was appointed as the statutory auditor. He, however, resigned after 3 months. State, how the new auditor will be appointed by DEF Ltd.

(c) R and S were appointed as Joint Auditors of GBF Ltd. What will be their professional responsibility in a case where the company has cleverly concealed certain transactions that escaped the notice of both the Auditors. Comment on the position. **[4+3+3]**

12. Explain how following are dealt in Auditor's Report as per CARO:

(a) Fraud

(b) Transactions in which Directors are interested.

(c) Guarantees for loan taken by others**.** **[3+4+3]**

13. (a) What are the inherent limitations of Internal Control system?

(b) State your views as an auditor with regard to each of the following:

(i) No depreciation has been charged for the year ended 31st March 2010, in respect of a spare Car purchased during the year and kept ready by the company for use as a stand-by on the ground that it was not used during the year.

(ii) Fixed assets have been revalued and the resulting surplus has been adjusted against the brought forward losses. **[4+6]**

Paper 12 (Company Accounts & Audit)

Test Paper—I/12/CAA/2012/T-2 [100 Marks]

Section A

1. Write the objective of Financial Statement. **[5]**

2. Answer the following questions:

(a) R Ltd. acquired a patent at a cost of ₹80,00,000 for a period of 5 years and the product life- cycle is also 5 years. The company capitalized the cost and started amortising at ₹10,00,000 p.a. After two years it was found that the product life cycle may continue for another 5 years from then. The net cash flow from the product during these 5 years are expected to be ₹36,00,000; ₹46,00,000; ₹44,00,000; ₹40,00,000; and ₹34,00,000. Find out the amortization cost of the patent for each of the years.

(b) Pritam Ltd. had an appeal before the income Tax Appellate Tribunal on its income Tax Assessment. The case was lost and accordingly a demand notice for ₹25 Lakhs was received towards the company's tax liability. The company has however, preferred an appeal in High Court before the end of the financial years, which is pending as on the Balance sheet Date and also till the approval of financial statements by their Board of Directors. The Company has not provided for the liability and also feels that no disclosure is required comment.

(c) Virat Ltd. received a specific grant of ₹100 lakhs for acquiring the plant of ₹500 lakhs during 2009-10 having useful life of 10 years. The grant received was credited to deferred income in the balance shet during 2012 -13 and due to non-compliance of conditions laid down for the grant of ₹100 lakhs the company had to refund the grant to the Government. Balance in the deferred income on that date was ₹90 lakhs and written down value of plant was ₹360 lakhs.

(i) What should be the treatment of the refund of the grant and the cost of the fixed asset and the amount of depreciation to be charged during the years 2009-10 in profit and loss account?
(ii) What should be the treatment of the refund if grant was deducted from the cost of the plant during 2009-10? **[5 × 3]**

Section B

3. On 01.01.2011, Lamco Ltd. issued 1,000, 15% Convertible Debentures of ₹ 200 each at a discount of 5% redeemable at par after 4 years by converting their holdings into equity shares of ₹ 100 each at a premium of 25%. As per terms of issue, the holders of these Debentures also have an option to convert their holdings as aforesaid at any time after 6 months but within 3 years. On 31.12.2011, a holder of 250 Debentures notified his intention to exercise the option.

(a) Give Journal entries as on 01.01.2011, 31.12.2011 and on 31.12.2012 (ignoring interest), and
(b) Prepare the Balance Sheet as on 31.12.2012. **[6]**

4. **(a)** From the following particulars, calculate Commission to the Managing Director:
Profit as per Profit and Loss A/c is ₹1,45,09,000 , after deducting the depreciation of ₹1,24,24,000. Salary and remuneration to the managing director of ₹72,000 and director fees of ₹4,000. The depreciation as per u/s 350 of the Companies Act, 1956 is of ₹1,04,24,000. **[3]**

(b) The following information has been extracted from the books of account of Super Ltd. as at 31st March, 2011:

Particulars	Dr. (₹ '000)	Cr. (₹ '000)
Administration Expenses	480	
Cash at Bank and on Hand	228	
Cash Received on Sale of Fittings		10
Long Term Loan		70
Investments	200	
Depreciation on Fixtures, Fittings, Tools and Equipment (1st April, 2010)		260
Distribution Costs	102	
Factory Closure Costs	60	
Fixtures, Fittings, Tools and Equipment at Cost	680	
Profit & Loss Account (at 1st April, 2010)		80
Purchase of Equipment	120	
Purchases of Goods for Resale	1710	
Sales (net of Excise Duty)		3,000
Share Capital (1,00,000 Shares of ₹ 10 each fully paid)		1,000
Stock (at 1st April, 2010)	140	
Trade Creditors		80
Trade Debtors	780	
	4,500	**4,500**

Additional Information:

(i) The stock at 31st March, 2011 (valued at the lower of cost or net realizable value) was estimated to be worth ₹ 2,00,000.

(ii) Fixtures, fittings, tools and equipment all related to administration. Depreciation is charged at a rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal.

(iii) During the year to 31st March, 2011, the Company purchased equipment of ₹ 1,20,000. If also sold some fittings (which had originally) cost ₹ 60,000) for ₹ 10,000 and for which depreciation of ₹ 30,000 had been set aside.

(iv) The average Income tax for the Company is 50%. Factory closure cost is to be presumed as an allowable expenditure for Income tax purpose.

(v) The company proposes to pay a dividend of 20% per Equity Share.

Prepare Super Ltd.'s Profit and Loss Account for the year to 31st March, 2011 and balance Sheet as at that date in accordance with the Companies Act, 1956 in the Vertical Form along with the Notes on Accounts containing only the significant accounting policies.

[7]

5. Good Day Limited had the following condensed Trial Balance as at 31-3-2011:

Debit	Amount ₹	Credit	Amount ₹
Cash	7,500	Current Liabilities	15,000
Account Receivable	30,000	Long- Term Notes Payable	25,500
Investments	20,000	Bonds Payable	25,000
Plant Assets	67,500	Capital stock	75,000
Land	40,000	Retained Earnings	24,500
	1,65,000		1,65,000

During 2011-2012, the following transactions took place:

(i) A tract of land was purchased for ₹7,750 cash.
(ii) Bonds payable in the amount of ₹6,000 were retired for cash at face value.
(iii) An additional ₹20,000 equity shares were issued at par for cash.
(iv) Dividends totaling ₹9,375 were paid.
(v) Net income for 2011-2012 was ₹28,450 after allowing for depreciation of ₹9,500.
(vi) Land was purchased through the issuance of ₹22,500 in bonds.
(vii) Usha Ltd. sold a part of its investments portfolio for ₹12,875 cash. The transaction resulted in a gain of ₹1,375 for the firm.
(viii) Current liabilities increased to ₹18,000 at 31-03-2012.
(ix) Accounts receivable at 31-03-2012 total ₹38,000.

Compute the cash flow from operating activity and investing activity as per AS – 3 (Revised). **[4]**

6. M/s Abhirup Ltd. has three segments namely X, Y, Z. The total assets of the Company are: Segment X ₹ 2.00 crores, Segment Y ₹ 6.00 crores and Segment Z ₹ 12.00 crores. Deferred tax assets included in the assets of each Segments are X- ₹1 crore, Y- ₹ 0.80 crores and Z- ₹ 0.60 crores. Indicate the names of reportable segments. **[3]**

7. **(a)** The summarized Balance Sheets of Star Ltd. and Cloud Ltd. for the year ending on 31.03.2012 are as follows:

Liabilities	Star Ltd. ₹	Cloud Ltd. ₹	Assets	Star Ltd. ₹	Cloud Ltd. ₹
Equity shares capital (in shares of ₹ 10 each)	24,00,000	12,00,000	Fixed Assets	55,00,000	27,00,000
8% Preference share capital, (in share of ₹ 10 each)	8,00,000	-	Current Assets	25,00,000	23,00,000
10% Preference share capital, (in share of ₹ 10 each)	-	4,00,000		-	-
Reserves	30,00,000	24,00,000		-	-
Current Liabilities	18,00,000	10,00,000		-	-
	80,00,000	50,00,000		80,00,000	50,00,000

The following additional information is provided :

	Star Ltd. (₹)	Cloud Ltd. (₹)
Profit before tax	10,64,000	4,80,000
Taxation	4,00,000	2,00,000
Preference dividend	64,000	40,000
Equity dividend	2,88,000	1,92,000

(i) The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operation.

(ii) Star Ltd. proposes to absorb Cloud Ltd. as on 31.03.2012. The terms of absorption are as under:

- Preference shareholders of Cloud Ltd. will receive 8% preference shares of Star Ltd. sufficient to increase the income of preference shareholders of Cloud Ltd. by 10%.
- The equity shareholders of Cloud Ltd. will receive equity shares of Star Ltd. on the following basis:

(i) The equity shares of Cloud Ltd. will be valued by applying to the earnings per share of Cloud Ltd. 75% of price earnings ratio of Star Ltd. based on the results of 2011-2012 of both companies.
(iii) The market price of equity shares of Star Ltd. is ₹ 40 per share.

(iv) The number of shares to be issued to the equity shareholders of Cloud Ltd. will be based on the above market value.

(v) In addition to equity shares, 8% preference shares of Star Ltd. will be issued to the equity shareholders of Cloud Ltd. to mark up for the loss in income arising from the above exchange of shares based on the dividends for the year 2011-2012.

The assets and liabilities of Cloud Ltd. as on 31.03.2012 are revalued by professional valued as under:

	Increased by (₹)	Decreased by (₹)
Fixed Assets	10,00,000	-
Current Assets	-	2,00,000
Current Liabilities	-	40,000
Equity dividend	2,88,000	1,92,000

For the next two years no increase in the rate of equity dividend is expected.
You are required to set out in detail the purchase consideration including computation of EPS. **[12]**

or,

(b) The following was the balance sheet of Blue Sky Ltd. as at 31st March, 2012.

Liabilities	**₹ in lakhs**
10% Redeemable Preference Shares of ₹ 10 each, fully paid up	2,500
Equity Shares of ₹10 each fully paid up	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit and Loss Account 300 9% Debentures	5,000
Sundry creditors	2,300
Sundry Provisions	1,000
	26,900

Assets	**₹ in lakhs**
Fixed assets (Tangible)	14,000
Investments	3,000
Cash at Bank	1,650
Other Current assets	8,250
	26,900

On 1st April, 2012 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹20 per share. In order to make cash available, the company sold all the investments for ₹3,150 lakh and raised a bank loan amounting to ₹2,000 lakhs on the security of the company's plant.
Pass journal entries for all the above mentioned transactions including cash transactions and prepare the company's balance sheet immediately thereafter. The amount of securities premium has been utilized to the maximum extent allowed by law. **[12]**

8. "Rupa" Ltd. went into voluntary liquidation on 31.12.2010 when their Balance Sheet read as follows:

Liabilities	Amount	Assets	Amount
Issued and Subscribed Capital:		Land and Building	2,50,000
5,000, 10% Cum. Pref. Shares of ₹ 100 each fully paid	5,00,000	Machinery and Plant	6,25,000
2,500 Equity Shares of ₹ 100 each, ₹ 75 paid	1,87,500	Patents	1,00,000
7,500 Equity Shares of ₹ 100 each, ₹ 60 paid	4,50,000	Stocks	1,37,500
15% Debentures Secured by Floating Charge	2,50,000	Sundry Debtors	2,75,000
Interest outstanding on Debentures	37,500	Cash at Bank	75,000
Creditors	3,18,750	Profit and Loss A/c	2,81,250
Total	**17,43,750**	**Total**	**17,43,750**

(i) Preference Dividends were in arrears for 2 years and the Creditors included Preferential Creditors of ₹ 38,000.

(ii) The assets realized as follows (a) Land and Building ₹ 3,00,000; (b) Machinery and Plant ₹ 5,00,000; (c) Patents ₹ 75,000; (d) Stock ₹ 1,50,000 and (e) Sundry Debtors ₹ 2,00,000.

(iii) Liquidation expenses were ₹ 27,250. Liquidator is entitled to commission of 3% on assets realized except cash.

Assuming the final payments including those on debentures were made on 30.06.2011, show the Liquidator's Final Statement of Account. **[5]**

Section C

Answer Question 9 and any three from the rest

9. Comment on the following based on legal provisions:

(a) Propriety audit is applicable to all limited companies in all aspects.

(b) Auditor is entitled to rely on work performed by others.

(c) While conducting audit of stocks, verification of stock records is of primary importance to operational auditor.
(d) Shareholders, by a majority vote, have authorized the Board of Directors to keep the books of accounts of the company in its Administrative Office, as against the earlier practice of keeping them in the Registered Office. The ROC was not informed about this change. Company intends that this practice is in order.
(e) Capitalisation of Borrowing Costs would continue during extended periods in which active development is interrupted**.** **[2X5]**

10.(a) State the matters which the statutory Auditor should look into before framing opinion on accounts on finalisation of audit of accounts?

(b) Briefly explain the inherent limitations of audit.

(c) How will you vouch/verify the following:
(i) Machinery acquired under Hire-purchase system.
(ii) Work-in-progress. **[3+3+4]**

11. (a) Write short notes on financial indications to be considered for evaluating the assumption of going concern.

(b) 'In vouching payments, the duty of the auditor does not end by merely checking the proof that money has been paid away.' Comment.

(c) Mention the special points in the case of an audit of the entity from Incomplete Records.

[3+3+4]

12. (a) What are the main points involved in 'Performance Audit' under Government Accounting system?

(b) Comment on the following:

(i) In case the existing auditor(s) appointed at the Annual General Meeting refused to accept the appointment, whether the Board of Directors could fill up the vacancy.

(ii) The auditor of TJK Ltd. did not report on the matters specified in sub-section (1A) of Section 227 of the Companies Act, 1956, as he was satisfied that no comment is required. **[4+6]**

13. (a) As an internal auditor for a large manufacturing concern, you are asked to verify whether there are adequate records for identification and value of Plant and Machinery and whether any of these items have become obsolescent and not in use. What points you would consider while conducting the internal audit?

(b) As a Company Auditor how would you react to the following situations?

(i) Insurance claim of ₹5 lacs received stands included under Miscellaneous Income.

(ii) ₹7.50 lacs paid by a cosmetics company to the legal advisor defending the patent of a product treated as Capital Expenditure. **[4+6]**

Paper 12 (Company Accounts & Audit)

Test Paper—I/12/CAFM/2012/T-3 [100 Marks]

Section A

1. Write a note on uses of general purpose Financial Statements. **[5]**

2. Answer the following questions:

(a) Write short notes on the Advantages and disadvantages of setting of Accounting Standards. **[5]**

(b) A Ltd. purchased fixed assets costing ₹3,000 lakhs on 1.1.12 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal instalments. Exchange rates were 1 Dollar = ₹40.00 and ₹42.50 as on 1.1.12 and 31.12.12 respectively. First instalment was paid on 31.12.12. The entire difference in foreign exchange has been capitalized.

You are required to state, how these transactions would be accounted for. **[3]**

(c) Prithvi Ltd. availed a lease from Akash Ltd. on following terms:

- A lease for a tenor of 3 years, in the beginning of year 2010 for equipment costing ₹14,00,000 and which has an expected useful life of 5 years. The fair market value is also ₹14,00,000.
- 3 equal annual payments are made at the end of each year.
- The property reverts back to the lessor on termination of the lease.
- The unguaranteed residual value is estimated at ₹1,50,000 at the end of year 2012.
- IRR = 10%
- The present value of Re. 1 due at the end of 3rd year at 10% rate of interest is 0.7513.
- The present value of annuity of Re. 1 due at the end of 3rd year at 10% IRR is ₹2.4868.

(i) State with reason whether the lease constitute finance lease.
(ii) Calculate unearned finance income. **[4]**

(d) Tufan Company has its financial year ended 31st March, 2010 eighteen law suits outstanding , none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the possible out-comes as below:

Result	Probability	Amount of loss
For first twelve cases:		₹
Win	0.6	-
Lose-low damages	0.3	90,000
Lose-high damages	0.1	1,60,000
For remaining six cases:		
Win	0.5	-
Lose-low damages	0.3	60,000
Lose-high damages	0.2	95,000

The directors believe that the outcome of each case is independent of the outcome of all the others. Estimate the amount of contingent loss and state the accounting treatment of such contingent loss. **[3]**

Section B

(e) Virat Company made a public issue of 1,25,000 Equity Shares of ₹100 each, ₹50 payable on application. The entire issue was underwritten by four parties – Amal, Badal, Chapal and Dhabal in the proportion of 30%, 25%, 25% and 20% respectively. The Underwriting Commission was 5%. Amal, Bada, Chapal and Dhabal had also agreed on “Firm” Underwriting of 4,000, 6,000, NIL and 15,000 Shares respectively.

The total subscriptions, excluding Firm Underwriting, including Market Applications were for 90,000 Shares. Market Application received were as under: Amal – 24,000 Shares; Badal – 20,000 Shares; Chapal – 12,000 Shares; and Dhabal – 24,000 Shares.

Ascertain the liability of the Individual Underwriters and also show the Journal Entries that you would make in the books of the company. All workings should form part of your answer. **[10]**

(f) From the following particulars of Ajanta Ltd., you are required to calculate the managerial remuneration in the following situation:

(i) There is only one whole time director;
(ii) There are two whole time directors;
(iii) There are two whole time directors, a part time director and a manager;

Particulars	**Amount (₹)**
Net profit before provision for income tax and managerial remuneration, but after depreciation and provision for repairs	8,70,410
Depreciation provided in the books	3,10,000
Provision for repairs of office premises during the year	25,000
Depreciation allowable under section XIV	2,60,000
Actual expenditure incurred on repairs during the year	15,000

[6]

(g) From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2013 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2013

Particulars	**Amount ₹'000**	**Particulars**	**Amount ₹'000**
Balance on 1.4.2012	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead Expenses	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2013	150
	3,250		3,250

[4]

(h) What are the disclosure requirements as per AS-17. **[3]**

(i) The Balance Sheet of S ltd. and H Ltd. as on 31.03.12 were as follows:

Liabilities	S Ltd.	H Ltd.
Equity Share capital	80	25
Reserves and surplus	400	75
10% 25,000 Debentures of ₹100 each	---	25
Other Liabilities	120	---
	600	125

Assets	S. Ltd.		H Ltd.	
Fixed assets at cost	200		75	
Less: Depreciation	100	100	50	25
Investments in H Ltd.				
2 Lakhs Equity Sahres of ₹10 each at cost	32			
10% 25,000 debentures of ₹100 each at cost	24	56		
Current assets		800		300
Less: Current liabilities	(356)	444	(200)	100
		600		**125**

In a scheme of absorption duly approved by the Court, the assets of 'H' Ltd. were taken over at an agreed value of ₹130 lakhs. The liabilities were taken over at par. Outside shareholders of 'H' Ltd. were allotted equity shares in S ltd. at a premium of ₹90 per share in satisfaction of other claims in 'H' Ltd. for purposes of recording in the books of 'S' Ltd. Fixed assets taken over from 'H' Ltd. were revalued at ₹40 lakhs.

The Scheme was put through on 1st April, 2012.

a. Journal Entries in the books of 'S' Ltd.
b. Show the balance of 'S' Ltd. after absorption of 'H' Ltd. **[12]**

(j) Sheet of X Limited as on 31.03.2011:

Balance Sheet of X Limited as at 31.03.2011

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Fixed Assets	
14%, 40,000 preference shares of ₹ 100 each		Land	40,000
fully paid up	4,00,000	Building	1,60,000
8,000 equity shares of ₹ 100 each. ₹ 60 per		Plant and Machinery	5,40,000
share paid up	4,80,000	Patents	40,000
Reserves and Surplus	NIL	Investments	NIL
Secured Loans		Current assets, loans and	
1. 14% debentures (Having a floating charge	2,30,000	advances	
on all assets)		A. Current Assets Stocks at	
Interest accrued on above debentures.		cost	1,00,000
(Also having a floating charge as above)	32,200	Sundry debtors	2,30,000
2. Loan on mortgage of land and building		Cash at bank	60,000
Unsecured Loan		B. Loans and Advances	NIL
Current Liabilities and provisions		Miscellaneous expenses	
3. Current liabilities	1,50,000	Profit and Loss A/c	
Sundry creditors	NIL		2,40,000
	1,17,800		
	14,10,000		14,10,000

On 31.03.2011 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Sundry creditors include preferential creditors amounting to ₹ 30,000.

The assets realized the following sums:

Land ₹ 80,000; Buildings ₹ 2,00,000; Plant and Machinery ₹ 5,00,000; Patent ₹ 50,000; Stock ₹ 1,60,000; Sundry debtors ₹ 2,00,000.

The expenses of liquidation amounted to ₹ 29,434. The liquidator is entitled to a commission of 2% on all assets realized (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments on the 30th June, 2011. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

[5]

Section C

Answer Question 9 and any three from the rest

9. Comment on the following statements based on legal provisions:

(a) Inventory turnover ratio is calculated by the auditor to obtain evidence concerning management's assertion about valuation of inventory.

(b) The first auditors of a public limited company appointed by the Board of Directors hold office till the conclusion of its statutory meeting.

(c) The auditor examines debit notes to vouch sales return.

(d) Working Papers of the auditor are to be returned to his client after audit since these are the property of the client.

(e) Non-adjusting events of a material nature, need not be adjusted in accounts of a material nature, need not be adjusted in accounts and can be disclosed by way of explanatory notes to the accounts. **[5X2]**

10. **(a)** What is the importance of having the accounts audited by independent professional auditors?

(b) 'Doing an audit is full of risk.' Narrate the factors which cause the risk.

(c) As an auditor, how will you vouch and/or verify the following?
(i) Recovery of Bad Debts written off.
(ii) Borrowing from Banks. **[3+3+4]**

11. (a) What do you understand by "Representations by Management"? To what extent an auditor can place reliance on such representations?

(b) As an auditor, comment on the following situations:

(i) One of the debtors of ABC Ltd. from whom ₹ 6 lacs is recoverable for credit sales gives a motor car in full settlement of dues. The directors estimate that the market value of the car transferred is ₹ 6.50 lacs. As on date of Balance Sheet, the car has not been registered in the name of ABC Ltd.

(ii) M/s DF Ltd. has taken a Group Gratuity Policy from an Insurance Company. During accounting year 2011-12 it received a communication from an Insurance Company informing that premium amount for the accounting year 2010-11 was less charged by ₹ 95 lacs on account of arithmetical error on the part of Insurance Company. M/s DF Ltd. Paid the said sum of ₹ 95 lacs during the accounting year 2011-12 by debiting the same to Prior period expenses. **[4+6]**

12. (a) Draft a audit programme for audit of Income and Expenditure of a Charitable institution running a hospital.

(b) In carrying out audit of Government expenditure, what are the basic standards that you will examine and consider?

(c) Write short note on Cut-off arrangement. **[4+3+3]**

13. (a) Elaborate the principles of internal check system that should be followed with regard to cash payments.

(b) Draft a Management Audit questionnaire for Audit of Inventory.

(c) What do you understand by the term' Sufficient Appropriate Audit Evidence'? **[4+3+3]**

Paper 12 (Company Accounts & Audit)

Test Paper—I/12/CAFM/2012/T-4 [100 Marks]

Section A

1. Write a note on Capital Maintenance. **[5]**

2. Answer the following questions:

(a) XYZ Ltd. supplied the following information:
You are required to compute the basic earnings per share – Accounting year 01.01.2012 - 31,12,2012 .
- (i) Net Profit year 2012 = ₹ 20,00,000; 2013 = ₹ 30,00,000.
- (ii) No. of shares outstanding prior to right issue = 10,00,000 shares.
- (iii) Right Issue
  - (a) One new share for each four outstanding i.e.,2,50,000 shares.
  - (b) Right Issue Price ₹20
  - (c) Last date of exercising right – 31.03.2013
- (iv) Fair rate of one equity share prior to exercise of rights on 31.03.2013 - ₹ 25. **[3]**

(b) A university receives two grants-one from the Ministry of Human Resource to be used for AIDS Research. The grant is for ₹45,00,000 which includes ₹3,00,000 to cover indirect expenses incurred in administering the grant. The second grant of ₹35,00,000 received from a reputed trust is to be used to set up a centre to conduct seminars on AIDS-related matters from time to time. During the year, it also received ₹5,00,000 worth of equipments donated by a well-wisher to be used for AIDS research. During the year 2012-13, the university spent ₹32,25,000 of the Govt. grant and incurred ₹3,00,000 overhead expenses, ₹28,00,000 were spent from the grant received from the trust.

Show the necessary journals entries. **[3]**

(c) A company reports the following information regarding pension plan assets. Calculate the fair value of plan assets at the end of the year.

Particulars	Amount ₹
Fair market value of plan assets (beginning of year)	9,00,000
Employer Contribution	1,50,000
Actual return on plan assets	70,000
Benefit payments to retirees	50,000

[3]

or,

Maharani Ltd. presented the following information:
How will you treat the following in the Balance Sheet of Maharani Ltd.?
Maharani Ltd. purchased a piece of land for ₹20,00,000 for which it received a grant from the Government amounting to ₹6,00,000. **[3]**

(c) Decide when research and development cost of a project can be deferred to future periods as per AS 26. **[3]**

(d) Briefly discuss how do you calculate diluted earnings per share as per AS 20. **[3]**

or,

(e) Write a note on disclosure requirements as per AS 29. **[3]**

Section B

3. MCL grants 1,250 options on 1st may 2009 at ₹80 when the market price is ₹ 200 and the face value of ₹ 10. The vesting period is 3 years . the maximum exercise period is one year. 450 unvested options lapse on 1st June 2011, 800 options are exercised on 30th Sept. 2012. Pass necessary journal entries to record the above transactions and also show Deferred Employee Compensation Expense Account and Employee Stock Option Outstanding Account and state how these accounts will be shown in the Balance Sheet. **[10]**

4. Write a note on disclosure requirements of Reserves and Surplus as per Schedule VI in the Balance Sheet of a company. **[6]**

5.

A Ltd . has the following balances as on 1st April 2011	**₹**
Fixed Assets	11,40,000
Less: Depreciation	3,99,000
	7,41,000
Stock and Debtors	4,75,000
Bank Balance	66,500
Creditors	1,14,000
Bills Payable	76,000
Capital (Shares of ₹100 each)	5,70,000

The Company made the following estimates for financial year 2011-12:

(i) The company will pay a free of tax dividend of 10% the rate of tax being 25%.

(ii) The company will acquire fixed assets costing ₹1,90,000 after selling one machine for ₹38,000 costing ₹95,000 and on which depreciation provided amounted to ₹66,500.

(iii) Stock and Debtors, Creditors and Bills payable at the end of financial year are expected to be ₹5,60,500, ₹1,48,200 and ₹98,800 respectively.

(iv) The profit would be ₹1,04,500 after depreciation of ₹1,14,000.

Prepare the projected cash flow statement of X Ltd. at the end of financial year 2011-12. **[4]**

6. Write a note on scope of IFRS-8 Operating Segments. **[3]**

7. Jolly Ltd., and Kimi Ltd., had the following financial position as at 31st March, 2012.

Particulars	Jolly Ltd.	Kimi Ltd.	Particulars	Jolly Ltd.	Kimi Ltd.
Shares Capital:	24,00,000	18,00,000	Goodwill	15,00,000	3,00,000
Equity Shares of			Fixed Assets	12,00,000	21,00,000
₹100 each fully paid			Investment at cost	9,00,000	6,00,000
General Reserve	9,00,000	6,00,000	Current assets	9,00,000	7,50,000
Investment Allowance Reserve	---	9,00,000			
Liabilities	12,00,000	4,50,000			
	45,00,000	37,50,000		45,00,000	37,50,000

It was decided that5 Jolly Ltd. will take over the business of Kimi Ltd., on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below:

i. Investment of Kimi Ltd., included 3,000 shares in Jolly Ltd., acquired at a cost of ₹150 per share. The other investments of Kimi Ltd., have a market value of ₹75,000;

ii. Investment Allowance Reserve was in respect of additions made to Fixed assets by Kimi Ltd., in the years 2004-2007 on which Income Tax relief has been obtained. In terms of the Income Tax Act, the company has to carry forward till 2011, reserve of ₹4,50,000 for utilization;
iii. Goodwill of Jolly Ltd., and Kimi Ltd., are to be taken at ₹12,00,000 and ₹6,00,000 respectively;
iv. The market value of investments of Jolly Ltd., was ₹6,00,000;
v. Current assets of Jolly Ltd., included ₹24,00,000 of stock in traded obtained from Kimi Ltd. which company sold at a profit of 25% over cost;
vi. Fixed assets of Jolly Ltd., and Kimi Ltd., are valued at ₹15,00,000 and ₹22,50,000 respectively.
vii. Suggest the scheme of absorption and show the journal entries necessary in the books of Jolly Ltd. Also prepare the Balance Sheet of that company after takeover of the business of Kimi Ltd.

[10]

or,

Liabilities	₹	**Assets**	₹
Share Capital		Fixed Assets	3,90,000
6,000 Equity Share of ₹60 each, ₹60 each, ₹30 paid up	1,80,000	Cash at Bank	2,70,000
		Profit & Loss A/c.	8,70,000
5% first Debentures	3,00,000		
6% Second Debentures	6,00,000		
Unsecured Creditors	4,50,000		
	15,30,000		**15,30,000**

Sri Manoj holds the First Debentures for ₹3,00,000 and is an Second Debentures of ₹3,00,000. He is also an Unsecured Creditor for ₹90,000.

Sri Vasant holds second Debentures for ₹3,00,000 and is an Unsecured Creditor for ₹60,000.

The following scheme of reconstruction is proposed:
(i) Sri Manoj is to cancel ₹2,10,000 of total debt owing to him; to advance ₹3,00,000 is cash and to take new First Debentures (in cancellation of those already issued) for ₹5,10,000 is satisfaction of all his claims.
(ii) Sri Vasant to accept to ₹90,000 I cash in satisfaction of all his claims.
(iii) Unsecured Creditors (other than Manoj and Vasant) are to accept the allotment of 20,000 fully paid equity shares of ₹7.50 each in satisfaction of 75% of their claims and the balance of 25% is to be postponed and to be payable at the end of four years.
(iv) Uncalled Capital is to be called-up in full and ₹52.50 per share cancelled, thus making the shares of ₹7.50 each.

The Nominal Share Capital is to be increased accordingly.

Assuming that scheme is duly approved, give the necessary journal entries and the Balance Sheet of the company after the scheme has been put into effect. **[10]**

8. The following is the Balance Sheet of "Failure Ltd" as on 30th September:

Liabilities	₹	Assets	₹
Share Capital: 11% Preference Shares of ₹ 10 each	2,00,000	Land and Building	2,40,000
10,000 Equity Shares of ₹ 10 each, fully paid	2,00,000	Sundry Current Assets	7,90,000
5,000 Equity Shares of ₹ 10 each, ₹ 7.50 paid	75,000	Profit & Loss Account	77,000
13% Debentures	3,00,000	Debenture Issue Expenses not written off	4,000
Mortgage Loan	1,60,000		
Bank Overdraft	60,000		
Creditors for Trade	64,000		
Arrears of Income Tax (Assessments concluded in July for 2 prior Assessment years) (21,000 + 5,000)	52,000		
	11,10,000		11,10,000

Other Information -

(a) Mortgage Loan was secured against Land and Buildings. Debentures were secured by a Floating Charge on all the other Assets.

(b) The Company was unable to meet the payments and therefore the Debenture holders appointed a Receiver and this was followed by a resolution for Members Voluntary Winding Up.

(c) The Receiver for the Debenture holders brought the Land and Buildings to auction and realised ₹3,00,000. He also took charge of Sundry Assets of the value of ₹4,80,000 and realised ₹4,00,000.

(d) The Liquidator realised ₹2,00,000 on the sale of the balance of Sundry Current Assets.

(e) The Bank Overdraft was secured by a personal guarantee of two of the Directors of the Company, and on the Bank raising a demand, the Directors paid off the dues from their personal resources.

(f) Costs incurred by the Receiver were ₹4,000 and by the Liquidator ₹5,600.

(g) The Receiver was not entitled to any Remuneration, but the Liquidator was to receive 3% Fee on the value of Assets realised by him.

(h) Preference Shareholders had not been paid dividend for 2 years, and interest for the last half-year was due to Debentureholders.

From the above information prepare the Liquidator's Final Statement of Account. **[5]**

Section C

Answer Question 9 and any three from the rest

9. Comment on the following statements based on legal provisions:

(a) Auditing in depth means checking all the transactions in minute details.

(b) When separate Branch Auditors are appointed, the company auditor need not visit the branches.

(c) For ascertaining minority interest, there is a need to distinguish between capital and revenue profits of subsidiary.

(d) Assets given on lease should be disclosed as part of fixed assets in the financial statements of the lessor.

(e) Audit in EDP environment is easier as the Trial Balance always tallies. **[5X2]**

10. (a) Mention briefly the conditions or events, which increase the risk of fraud or error leading to material misstatement in Financial Statements.

(b) Draft a 'checklist' for carrying out audit of the "Buy Back of Own Securities".

(c) As an auditor, how will you vouch and/or verify the following?

(i) Retirement Gratuity to Employees.

(ii) Sales Commission Expenditure. **[3+3+4]**

11. (a) Comment on the following:

(i) At the Annual General Meeting of the Company, a resolution was passed by the entire body of shareholders restricting some of the powers of the Statutory Auditors. Whether powers of the Statutory Auditors can be restricted?

(ii) G Ltd. gave a guarantee to the Court for payment of excise dues of Rs.10 lacs for one of its subsidiaries. According to the company, since the guarantee was given on behalf of its subsidiary, no disclosure was required.

(b) State the reporting requirements of Company Auditor is respect of the following under CARO-2003?

(i) Inventory.

(ii) Records of dealing in securities. **[5+5]**

12. (a) An Audit of expenditure is one of the major components of Government Audit. In the context of "Government Expenditure Audit" write in brief, what do you understand by:

(i) Audit against Rules and Orders

(ii) Audit of Sanctions

(iii) Audit against Provision of Funds

(b) Draft an audit programme to audit the receipts of a cinema theatre owned by a partnership firm. **[6+4]**

13. (a) Discuss flow chart technique for evaluation of internal control system in an organization.

(b) Mention the difference between 'audit report' and 'audit certificate.'

(c) Why do we need Management Audit? **[3+4+3]**