Solved Scanner Appendix

CMA Inter Gr. II (New Syllabus)

(**Solution of December 2014)**

Paper - 12: Company Accounts and Audit

Chapter - 2: Accounting Standards

2014 - Dec [1] (b), (c)

(b) Accounting as per AS-12

⇒ Bank A/c Dr.	35 Lacs	
To Government grant		35 Lacs
(Being Government Grant Received)		
⇒ Land A/c Dr.	100 Lacs	
To Bank		100 Lacs
(Being payment made for Land acquisition)		
⇒ Government Grant Dr.	35 Lacs	
To Land		35 Lacs
(Being Government grant adjust with land A/c.)		

(c)

Paid up value of share to be Issued	10
Premium of share (60% of 10)	6
Total value of share to be Issued	16
⇒ Total Amount required for purchase of Machinery	₹ 10,00,000

No. of share to be Issued = $\frac{\text{Fund Required}}{\text{Value of share}}$

$= \frac{10,00,000}{16}$ = 62,500 Shares

Journal Entries:

⇒ Machinery A/c	Dr.	10,00,000	
To Machinery Mart			10,00,000
(Being Machinery Purchased)			
⇒ Machinery Mart	Dr.	10,00,000	
To Share Capital			6,25,000
To Security Premium			3,75,000
(Being payment made if form of share for machinery purchase)			

2014 - Dec [2] (a), (b) (ii), (c)(i), (ii)

(a) Theoretical ex-right fair value = Fair value of share immediately prior to exercise of right + total amount received exercise

= No. of share outstanding prior to exercise + No. of share issued as right share

$\frac{5,00,000 \times 90 + 2,50,000 \times 50}{7,50,000}$ = 76.67

Computation of adjustment factor= $\frac{\text{fair value of share prior to exercise the right}}{\text{theoretical ex-right value per share}}$

$= \frac{90}{76.67}$ = 1.17

Computation of earning per share ≥ EPS for year ending 31st March, 2013

$= \frac{11,00,000 - (30\% \text{ of } 11,00,000)}{5,00,000} = \frac{7,70,000}{5,00,000}$ = 1.54

EPS for the year ended 31st March, 2013 restated for right issue

$= \frac{7,70,000}{5,00,000 \times 1.17}$ = 1.316/per share

EPS for year ended on 31st March, 2014 including effect right issue

$$= \frac{13,50,000 - (30\% \text{ of } 13,50,000)}{\left(5,00,000 \times 1.17 \times \frac{4}{12}\right) + \left(7,50,000 \times \frac{8}{12}\right)}$$

$$= \frac{9,45,000}{1,95,000 + 5,00,000}$$

$$= 1.36$$

(b) (ii) Calculation of Amount of provision to be made

	As AS (31-03-13)	As AS (31-03-14)
For Less than 1 year	500	1,800
	(25,000 × 2%)	(90,000 × 2%)
For More than 1 year	1,200	750
	(40,000 × 3%)	25,000 × 3%
Total	1,700	2,550

So Amount to be debited to P & L A/c for the year ended 31-3-14 is ₹ 850 (2,550-1,700)

(c) (i) Total cost of patent ₹ 90,00,000

Amortisation for 3 years

15,00,000 × 3 = ₹ 45,00,000

Unamortised Amount ₹ 45,00,000

Unamortise Amount will be written off for next 5 year as per net cash flow of the product which is as below.

Year	Net Cash flow	Amortisation Amount
1	30 Lacs	45 Lacs × $\frac{30}{180}$ = 7.5 Lacs
2	45 Lacs	45 Lacs × $\frac{45}{180}$ = 11.25 Lacs
3	38 Lacs	45 Lacs × $\frac{38}{180}$ = 9.5 Lacs
4	35 Lacs	45 Lacs × $\frac{35}{180}$ = 8.75 Lacs

5	32 Lacs	45 Lacs × $\frac{32}{180}$ = 8 Lacs
Total	180	45 Lacs

(ii) The actual Return on Pension plan Assets is as Follows:

Particulars	Amount ₹	Amount ₹
Change in fair market value of plan Assets (51,20,000 - 45,00,000) =		6,20,000
Adjustment:		
Employer contribution	6,65,000	
Less: Benefit paid	7,60,000	- 95,000
Actual Return		5,25,000

Chapter - 3: Accounting for Shares and Debentures

2014 - Dec [1] (e), (f)

(e) Modes of Buy-Back

Buy-back is permissible:

(a) from the existing security holders on a proportionate basis through the tender offer; or

(b) from the open market through
   i. Book-building process,
   ii. stock exchange;

(c) from odd lots, that is to say, where the lot of securities of a public company whose shares are listed on a recognized stock exchange is smaller than such marketable lot as may be specified by the stock exchange: or

(d) by purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

Where a company proposes to buy-back its own shares. it shall after passing the special resolution or resolution of its Board of Directors make a public announcement in at least one English National Daily one Hindi National Daily and Regional Language Daily with wide circulation at the place where the registered office of the company is located.

The public announcement shall specify a date which shall be the 'specified date' for the purposes of determining the names of the shareholders to whom the letter of offer shall be sent. The specified date cannot be earlier than 30 days and not later than 42 days from the date of such public announcement. The letter of offer shall be despatched not earlier than 21 days from the submission of its draft with SEBI through the merchant banker. The date of opening of the offer shall not be earlier than 7 days or later than 30 days after the specified date. Companies buying back through the tender offer have to open an escrow account.

(f) Calculation of Minimum Number of Shares to be Issued by X Ltd. for Redemption of 15% preference share.

Particulars	**Paid-up Share Capital**	**Security Premium**
Amount required	65,000	6,500
	(650 × 100)	(65,000 × 10%)
Fund available	45,500	1,000
Fund required	19,500	5,500
No. of share to be Issued	195	220
	$\left(\frac{19,500}{100}\right)$	$\left(\frac{5,500}{25}\right)$

So at least 220 share to be issued to cover paid up share capital as well as security Premium.

2014 - Dec [2] (b) (i)

Value of option = 25,000 (425 - 100) = 81,25,000

Amount to be amortised = $\frac{81,25,000}{2}$ = 40,62,500

Date	Particulars		Amount ₹	Amount ₹
1-4-12	Deferred Employee compensate Exp.	Dr.	81.25	
	To Employee stock option outstanding			81.25
	(Being the grant of 25,000 ESOP at a discount of 100)			
31-3-13	Employees compensation exp.		40.625	
	To Deferred employees compensate expense			40.625
	(Being amortisation of the deferred compensation other two year an SCM bases)			
15-3-14	Bank A/c	Dr.	22.5	
	Employees Stock option Outstanding	Dr.	73.125	
	To Equity share			2.25
	To Security premium			93.375
	(Being the excercise of 22,500 option)			
15-3-14	Employees stock option outstanding	Dr.	8.125	
	To Deferred Employees compensation Exp.			4.0625
	To Employees compensation Exp.			4.0625
	(Being the reversal of compensation accounting of 2500 option)			
	• $\frac{40,62,500}{25,000} \times 2500 = 4,06,250$			
31-3-14	Employees compensation Exp.	Dr.	36.5625	
	To Deferred Employees compensation Exp.			36.5625
	(Being amortisation of balance deferred compensation)			
	(• 81.25 - 40.625 - 4.0625 = 36.5625)			

2014 - Dec [3] (a) (i), (ii), (b) (ii)

(i) (a)Computation of liabilities of underwriters (No. of shares):

Particulars	A	B	C
Gross liability	12,00,000	12,00,000	12,00,000
Less: Firm underwriting	1,00,000	1,00,000	1,00,000
	11,00,000	11,00,000	11,00,000
Less: Marked applications	7,25,000	8,40,000	13,10,000
	3,75,000	2,60,000	-2,10,000
Less: Unmarked applications distributed to A and B in equal ratio	1,12,500	1,12,500	Nil
	2,62,500	1,47,500	-2,10,000
Less: Surplus of C distributed to A and B in equal ratio	1,05,000	1,05,000	2,10,000
Net liability (excluding firm underwriting)	1,57,500	42,500	Nil
Add: Firm underwriting	1,00,000	1,00,000	1,00,000
Total liability (No. of shares)	2,57,500	1,42,500	1,00,000

(b) Computation of amounts payable by underwriters: (₹)

Particulars	A	B	C
Liability towards shares to be subscribed @12 per share	30,90,000	17,10,000	12,00,000
Less: Commission (5% on 12 lakhs shares @ 10 each)	6,00,000	6,00,000	6,00,000
Net amount to be paid by underwriters	24,90,000	11,10,000	6,00,000

(c) In the Books of Maruti Ltd.

Journal Entries

Particulars		Dr. ₹	Cr. ₹
Underwriting commission A/c	Dr.	1,80,000	
To A A/c			6,00,000
To B A/c			6,00,000
To C A/c			6,00,000
(Being underwriting commission on the shares underwritten)			
A A/c	Dr.	30,90,000	
B A/c	Dr.	17,10,000	
C A/c	Dr.	12,00,000	
To Equity share capital A/c			50,00,000
To Share premium A/c			10,00,000
(Being shares including firm underwritten shares allotted to underwriters)			
Bank A/c	Dr.	42,00,000	
To A A/c			24,90,000
To B A/c			11,10,000
To C A/c			6,00,000
(Being the amount received towards shares allotted to underwriters less underwriting commission due to them)			

(ii) Primary Market - Public Issues - Sweat Equity Shares
Securities and Exchange Board of India (Issue of Sweat Equity) Regulations, 2002.
Section 2 (88) Companies Act 2013 defines Sweat Equity Shares as under: expression "sweat equity shares" means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

The conditions for issue of such shares by a company are specified in the section of companies act as under:

(a) the issue of sweat equity shares is authorised by a special resolution passed by the company in the general meeting;
(b) the resolution specifies the number of shares, current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
(c) not less than one year has, at the date of the issue elapsed since the date on which the company was entitled to commence business;
(d) the sweat equity shares of a company whose equity shares are listed on a recognised stock exchange are issued in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;

Provided that in the case of a company whose equity shares are not listed on any recognised stock exchange, the sweat equity shares are issued in accordance with the guidelines as may be prescribed.

All the limitations, restrictions and, provisions relating to equity shares shall be applicable to such sweat equity shares.

Securities and Exchange Board of India (Issue of Sweat Equity) Regulations, 2002.

Applicability of the Regulation to Unlisted Company.

The regulations are not applicable to an unlisted company. Provided the unlisted company coming out with initial public offering and seeking listing of its securities on the stock exchange, pursuant to issue of sweat equity shares, shall comply with the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000.

Issue of Sweat Equity by a Listed Company.

A company whose equity shares are listed on a recognised stock exchange may issue sweat equity shares in accordance with Section 79A of Companies Act, 1956 and these Regulations to its:

(a) Employees
(b) Directors.

(b) (ii)

Particulars		₹	₹
Bank A/c	Dr.	18,00,000	
To Equity share capital			12,00,000
To Security Premium			6,00,000
Bank A/c	Dr.	10,00,000	
To 12% Debenture			10,00,000
Bank A/c	Dr.	5,60,000	
To Investment			5,00,000
To Profit and Loss A/c			60,000
10% Preference share capital		30,00,000	
Loss on Redemption of share		7,50,000	
To share holders			37,50,000
Share holders	Dr.	37,50,000	
To Bank			37,50,000
Securities premium	Dr.	7,00,000	
Profit and Loss A/c	Dr.	50,000	
To Loss on Redemption of share			7,50,000
General Reserve		13,00,000	
Profit and Loss		5,00,000	
To Capital Redemption Reserve			18,00,000

Working Note:

Redeemable preference share capital	30,00,000
Less: Issue of New share	12,00,000
	18,00,000

Chapter - 4: Presentation of Financial Statements

2014 - Dec [3] (a) (iii)

Let Remuneration of whole time Director is x

x = 10% {50,00,000 - 1% (50,00,000 - x)}

x = 10% {50,00,000 - 50,000 + 0.01x}

x = 5,00,000 - 5,000 + 0.001x

0.999 x = 4,95,000

x = 4,95,495.495

⇒ Remuneration of whole time Director	4,95,495.495
⇒ Remuneration of part time Director	
(50,00,000 - 4,95,495.495) × 1%	45,045.045
Total Remuneration	**5,40,540.540**

Chapter - 5: Cash Flow Statement

2014 - Dec [1] (a)

Cash flow as per AS-3:

- Cash flow from Operating Activity
- Cash flow from Investing Activity
- Cash flow from Financing Activity

2014 - Dec [3] (c) (ii)

Cash flow from operating Activity

Particulars	**Amount (₹)**
Change in General Reserve	3.5
Change in Profit & Loss A/c	6
Proposed Dividend	18
Provision for tax (W.N.1)	15.75
Profit before tax	43.25
Add: Depreciation	4.5
Add: Goodwill written off	0.25
Add: Loss on sale of Fixed Assets	0.24
Less: Profit on sale of Investment	-0.15
Change in current working capital	
• **Current Liability**	
• Decrease in creditors	-1.5
• Increase in Bills payable	1
• **Current Assets**	
• Decrease in stock	3
• Increase in Debtors	-4
• Decrease in Bills Receivable	1.5
• Increase in Prepaid Expenses	-1.4
	46.69

Income tax paid	8.75
Cash flow from operation	37.94

Working Note - 1

Opening Provision	10 lacs
Income tax paid	(8.75) lacs
	1.25
Closing Provision	17.00
Provision during year	15.75

Chapter - 7: Business Combinations and Corporate Restructuring

2014 - Dec [1] (d)

Accounting Standard (AS-14) as prescribed by the Institute of Chartered Accountants of India deals with accounting for amalgamation and treatment for resulting goodwill or reserves. AS-14 classifies amalgamation into two types, viz.:

Amalgamation in nature of merger; and

Amalgamation in nature of purchase.

Amalgamation in nature of merger is an amalgamation, which satisfies all the following conditions:

i. All the assets and liabilities of the transferor company become the assets and liabilities of the transferee company;
ii. Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than transferee company and its nominees) become equity shareholders of the transferee company after amalgamation;
iii. The consideration is to be discharged by way of issue of equity shares in the transferee company to the shareholders of the transferor company on the amalgamation;
iv. The business of the transferor company is to be carried on by the transferee company;
v. No adjustments are intended to be made to the book values of the assets and liabilities of the transferor company.

If any one or more of the aforesaid conditions are not satisfied then the amalgamation is in nature of purchase. Amalgamation in the nature of merger is to be accounted as per the Pooling of Interest Method and in case of amalgamation in the nature of purchase accounting needs to be done as per the Purchase Method.

2014 - Dec [3] (b) (i)

(i) Computation of Purchase consideration.

(Amount ₹ in Lakhs)

Particulars	**Ritu Ltd.**	**Richa Ltd.**
Fixed Assets	6,000	4,000
Current Assets	7,000	2,500
	13,000	6,500
Less: Unsecured Loan	2,000	1,000
Less: Creditors	1,000	500
Net Assets	10,000	5,000
No. of share	500	200
Intrinsic value per share	20	25
Total Purchase consideration to be paid		5,000
Payment made in term shares of 3 hours		
200 shares $\times \frac{5}{4}$ = 250 shares × 20		5,000
Payment made in form of cash		Nil

(ii) Journal Entries in the books of Ritu Ltd.

Particulars		₹	₹
Purchase consideration	Dr.	5,000	
To Liquidation of Richa Ltd.			5,000
(Being Purchase consideration due to liquidator)			
Fixed Assets	Dr.	4,000	
Current Assets	Dr.	2,500	
To unsecured Loans			1,000
To Creditors			500
To Purchase consideration			5,000
(Being Assets liability taken over)			

liquidator of Richa Ltd.	Dr.	5,000	
To Share holders			5,000
(Share due to share holders)			
Share holders	Dr.	5,000	
To Share capital			2,500
To Security Premium			2,500
(Being discharge of shares)			

Chapter - 8: Liquidation of Companies

2014 - Dec [3] (c) (i)

Liquidator's Final statement of Accounts

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
Assets Realized		Liquidation Exp.	72,000
Excluding Machinery (17,50,000-3,22,000)	14,28,000	Payment to Employees clerk 600×10×4 = 24,000	
Machinery (3,22,000-2,00,000)	1,22,000	Peon 300×6×3 = 5,400	29,400
		Other creditors	5,24,600
		10% Preference share	9,00,000
		Equity share holders (working note1)	24,000
	15,50,000		15,50,000

Working Note:1

Amount realize from Assets	15,50,000
Payment made except Equity share	15,26,000
Fund available for Equity Shareholders	24,000

Equivalent No. of share

Class A ⇒ Equivalent No. of share = 8,000×75 =		6,00,000
Class B ⇒ Equivalent No. of share = 6,400×60 =		3,84,000
Class C ⇒ Equivalent No. of share = 56,000×5 =		2,80,000
	Total	12,64,000

Refund made

Class A ⇒ 24,000×6,00,000/12,64,000 = 11,392
Class B ⇒ 24,000×3,84,000/12,64,000 = 7 ,291
Class C ⇒ 24,000×2,80,000/12,64,000 = 5,317
24,000

Chapter - 10: Auditing Concepts

2014 - Dec [4] (a) (i)

Concept of True and Fair

The concept of true and fair is a fundamental concept in auditing. The phrase "true and fair" in auditor's report signifies that the auditor is required to express his opinion as to whether the state of affairs and the results of the entity as ascertained by him in the course of his audit are truly and fairly represented in the accounts under audit. This requires that the auditor should examine the accounts with a view to verify that all assets, liabilities, income and expenses are stated as amounts which are in accordance with accounting principles and policies which are relevant and no material amount, item or transaction has been omitted. What constitutes "true and fair", however, has not been defined in any legislation. In the context of audit of a company, however, section 211(5) of the Companies Act provides that the accounts of a company shall be deemed as not disclosing a true and fair view, if they do not disclose any matters which are required to be disclosed by virtue of provisions of Schedule VI to the Act, or by virtue of a notification or an order of the Central Government modifying the disclosure requirements. It must be noted that the disclosure requirements as laid down by the law are the minimum requirements. If certain information is vital for showing a true and fair view, the accounts should disclose it even though there may not be a specific legal provision to do so. Thus, what constitutes a 'true and- tie view is a matter of an auditor's judgment in the particular circumstances of a case. In more specific terms, to ensure true and fair view, an auditor has to see the following:

(i) That the assets are neither undervalued or overvalued, according to the applicable accounting principles;
(ii) No material asset is omitted;
(iii) The charge, if any, on assets are disclosed;
(iv) Material liability should not be omitted;
(v) The profit and loss account discloses all the matters required to be disclosed by Part II of Schedule VI and the balance sheet has been prepared in accordance with part I of Schedule VI;
(vi) All unusual, exception or non- recurring items have been disclosed separately.

2014 - Dec [4] (c) (iv)

Computer Assisted Audit Techniques (CAATs): The use of computers may result in the design of system that provide less visible evidence than those using manual procedure, CAAT are such techniques applied through the computer which are used in verifying the data being processed by if following are three CAATs available to audit.

- Test pack
- Test data
- Computer Audit programme.

Chapter - 11: Type of Audit

2014 - Dec [4] (a) (ii)

Management Audit

Management audit is a comprehensive and thorough examination of an organization or one of its components. The audit is implemented to identify problems or significant weaknesses in the organization or corporation, thus providing management with a tool to address and repair the problem area. The management audit is now widely accepted in the business field. For more than 40 years, corporations and non-profit organizations have utilized the management audit as a comprehensive tool.

The management audit is defined by its scope and objectives. The scope is broad and generally includes all functions of the organization, including objectives and strategy, corporate structure, organizational planning, the budgeting process, human and financial resources management, decision making, research and development, marketing, equipment and operations, and management information systems. This breadth extends to recent, present, and future operations and covers external issues as well as internal concerns. Objectives of the management audit include the development of recommendations and improvements, as well as increased awareness of the credibility and acceptance of the audit's results.

The process is more an audit of management, in order to enhance corporate profits and financial stability.

The audit follows a logical, step-by-step format, including initial interviews with key managers. A study team uses the interview process to define the scope of the audit, including the areas or functions to be studied. Next, the team requests various forms of documentation, including budgets, planning documents, corporate reports, financial statements, policy and procedure manuals, biographical material, and various other documents. Following this stage, the study team then prepares a schedule and detailed plan of study, all aimed at proceeding to the internal fact finding step. Fact-finding relies

once again on interviews, documentation, and personal observation of facilities and organizational work patterns. By the time these steps are completed, the study team develops a thorough understanding of organizational structure and operations.

Chapter - 12: Audit Planning, Programme and Procedures

2014 - Dec [1] (h), (i)

(h) Audit programme is a detailed plan of applying the audit procedures in the given circumstances with instructions for the appropriate techniques to be adopted for accomplishing the audit objectives. It is a list of examination and verification steps to be applied to documents and records. It is not practicable to evolve one audit programme applicable to all business under all circumstances. However, it is necessary to specify in detail in the audit programme, the nature of work to be done so that no time is wasted on irrelevant matters.

Audit programme for internal audit may be said to be guideline to the internal auditor as to how to go about with the audit work he is going to perform. It is drawn to attain the results expected by the management. Audit programme follows the audit plan. The auditor should prepare a written audit programme setting forth the procedures that are needed to implement the audit plan. The programme may also contain the audit objective for each and should be sufficient to monitor and control the execution and progress of the work.

To start with, an auditor should assess the extent to which he can rely on the internal control in vogue in the organization, nature, size and composition, the dependability on internal control and the given scope of work, are the chief parameters for framing the audit programme. The programme should aim at providing for a minimum essential work which may be termed as a standard programme. The outcome of compliance and substantive procedures during the course of audit should guide the extent and scope of audit work beyond the standard programme. According to the experience gained by actually carrying out the work, the programme may be altered to take care of situation which were left out initially, but are subsequently found of relevance and concern. Similarly, if any matter originally provided for, proves to be beyond doubt subsequently, may be left. Everybody associated with the audit should understand to keep open mind beyond the programme and to note and report all significant matters.

Periodical assessment of the progress of audit programme should be made to see that everything is moving as per design. The auditor normally has flexibility in deciding when to perform audit procedures. However, in some cases, the auditor may have no liberty as to timing e.g. while taking inventory or verifying cash balances or spot checking of receipts.

(i)
- Inherent risk, the risk that material errors and misstatement will occur,
- Control risk, risk that the auditee's system of internal control will not be able to prevent or rectify such errors,
- Detection risk, the risk that any remaining material errors may go undetected during audit process.

2014 - Dec [4] (a) (iii)

Audit Note Book

An audit book is usually a bound book in which a large variety of matters observed during the course of audit are recorded. The audit note book is a permanent record of the auditor. For each individual audit, the auditor usually maintains a separate audit note book. The audit note book should be maintained clearly, completely and systematically. An audit note book is a great evidential tool available as a defence with the auditors in the event of any charge is brought against them. In case of City Equitable Fire Insurance Company, the auditors were relieved because they have maintained record of the audit work performed at each stage:

(i) Contents of Audit Note Book.
(ii) Name of the business enterprise.
(iii) Organisation structure.
(iv) Important provisions of Memorandum and Articles of Association.
(v) Communication with the previous auditor, if any.
(vi) Management representations and instructions.
(vii) List of books of accounts maintained by the enterprise.
(viii) Accounting methods, internal control systems followed by the enterprise, applicable laws etc.
(ix) Key management personnel.
(x) Errors and fraud discovered.
(xi) Matters requiring explanations or clarifications.
(xii) Special points that need attention in the audit report and for subsequent audits.

Chapter - 14: Vouching and Verification

2014 - Dec [4] (c) (i),(ii)

(i) **Loose Tools:**

Loose tools at the end of the year should be checked by the auditor as follows:

(i) The auditor should see that the cost of loose tools is properly determined and certified by the Chief Engineer.

(ii) If the loose tools are manufactured by the organization, the authorized officer shall certify the value of such tools.

(iii) He should physically verify these tools or obtain a list of tools duly certified by the responsible officer. Any discrepancies shall be investigated.

(iv) Ensure that the closing stock of tools is valued at cost. See that the valuation is done on the basis, which is consistent taking in to consideration obsolescence, damage, brokerage etc.,

(v) See that the loose tools are disclosed in the Balance Sheet on asset side under the head "Current Assets".

Loose tools require large investment though the items are many and having low cost per unit. The control is necessary because of the large amount of investment in loose tools. Accounts of individual items may not be kept but some control over issue is required to prevent wastage. Charging of loose tools to production may be done in any of the following manners:

1. One method of accounting is to charge such items to Production account as and when they are purchased. The unused stock is valued at nil value. To prevent wastage and to exercise control, the records are kept for issue to workmen and receipts from stores.
2. Another method is to value such asset at the book value and subsequent purchase is charged to Production account as replacement.

3. Another method is to revalue the inventory of loose tools at the close of the year at cost and making necessary adjustments in accounts.

(ii) **Stock in Trade**

This is an important asset and may be used to fabricate profit and give misleading Balance Sheet and hence an auditor is required to take lot of care and caution while verifying stock in trade and for following points be considered:

(i) Verify whether an efficient internal check system regarding stock is in operation or not.
(ii) Compare the stock register with purchases and sales book, in regard to question.
(iii) Check the gate keepers' outward register to find out whether any fictitious sale has been entered in Sales Book.
(iv) Check the Stock sheets and calculations, additions, costing etc., there in.
(v) See that goods sold but not delivered are not included in Closing Stock.
(vi) See that goods purchased, invoices received but delivery yet to be received are included in the Closing Stock.
(vii) See that goods received from others to be sold on their behalf are not included in Closing Stock.
(viii) See that furniture, tools etc., are not included in Closing Stock.
(ix) Compare the balances of Stock Register with the Stock sheets.
(x) Method of stock taking may be enquired into, to find out possibilities of frauds and errors.
(xi) Examine the principle followed in the valuation of stock to ensure that those were followed in previous years.
(xii) Check whether stocks are valued on the basis of "Cost price" or "Market price" whichever is less or not.
(xiii) Compare the Gross Profit rate of current year with that of previous years, if considerable variation is found, that should be enquired into in detail.

(xiv) Determine the obsolete, slow moving, non-moving and damaged item and ascertain their treatment in accounts.

(xv) Obtain a certificate from the management to the effect that the stock sheets are accurate and confirming that they have been signed by responsible person.

Chapter - 15: Audit of Regulated and Non-Regulated Industries

2014 - Dec [4] (b) (i)

Audit of Hospital

The following points are to be considered necessary for conducting an audit of Hospital:

(i) Check the letter of appointment to ascertain the scope of responsibilities.

(ii) Study the Charter or Trust Deed under which the hospital has been set up and take a special note of the provisions affecting the accounts.

(iii) Examine, evaluate and verify the system of internal check, internal control and determine the nature, timing and the extent of the audit procedures.

(iv) Vouch the entries in the Patient's Bill Register with a copies of bill issued. Test check the selected bills to see that these have been correctly prepared taking into consideration the period of stay of each patient as recorded in the Attendance Schedule.

(v) Vouch the collection from patients with copies of bills and entries in Bills Register. Arrears of dues should be properly carried forward and where these are deemed to be irrecoverable, they should be written off under due authorizations.

(vi) Interest and/ or dividend income should be vouched with reference to the Investment Register and Interest and Dividend warrants.

(vii) In case of legacies and donations which are received for specific purposes, it should be ensured that any income therefrom is not utilized for any other purposes.

(viii) Where receipts of subscription show a significant deviations from budgeted figures, it should be thoroughly inquired into and the matter be brought to the notice of the trustees or the Managing Committee.

(ix) Government grants or grants from local bodies should be verifies with the reference to the correspondence with the concerned authorities.

(x) Clear distinction should be made between the items of capital and revenue nature.

(xi) The capital expenditure should be incurred under proper authorization by a valid resolution of the trustees or the Managing Committee.

(xii) Verify the system of internal check as regards purchases and issue of stores, medicines etc.

(xiii) Examine that the appointment of the staff, payment of salaries etc. are duly authorized.

(xiv) Physically verify the investments, fixed assets and inventories.

(xv) Check that adequate depreciation has been provided on all the depreciable assets.

2014 - Dec [4] (c) (iii)

Expenditure Audit: The basic standards set for audit of expenditure are to ensure that there is provision of funds authorized by competent authority fixing the limits within which expenditure can be incurred. Some standards are briefly explained below:

(i) **Audit against Rules & Orders:** It is also known as Regularity Audit. Under this, the auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and orders framed by the competent authority.

(ii) **Audit of Sanctions:** The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorizing such expenditure. In case expenditure exceeds the sanctioned limit, objection is raised.

(iii) **Audit against Provision of Funds:** It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the sanctioned amount as well as examine whether the money has been spent for the specified purpose.

(iv) **Audit of financial propriety:** The auditor has to ensure that the expenditure incurred are with respect to the recognized standards of financial propriety i.e. quantity, quality, morality and ethics.

Chapter - 16: The Company Auditor

2014 - Dec [4] (a) (iv)

Joint Audit

Two or more auditors are some time appointed, specially in the case of large concerns such as banking or insurance companies or where the regulations of the company require such appointment.

In the absence of specific provisions in the Companies Act,2013. The Institute of Chartered Accountants of India has issued a statement on the Responsibilities of Joint Auditors to provide a clear idea of the professional responsibilities under taken by the Joint Auditors.

According to the statement it would not be correct to hold an auditor responsible for the work of another and each joint auditor will be responsible only for the work allotted to him. In coming to these conclusions, the council considered that the extent of work to be carried out is a matter of professional judgment and that no two firms, whatever be their standing and competence, will necessarily exercise their judgment in an identical manner so as to perform the same volume of work in the same manner.

Where joint auditors are appointed, they should divide the work of audit between them by mutual discussion. Such division of work would usually be in terms of identifiable operating units or specified areas of work and, in such a case, it is a good practice to communicate to the client, wherever possible, the actual division of work. Where auditors have been allotted the work of separate units or branch it would be desirable for each auditor to prepare a separate report on the financial statement of the branch or the unit for which he is responsible. When a natural division of work is not possible, the statement suggests that some division of work, by classification of assets or liabilities or income or expenditure or period of time, should be made.

It is the responsibility of each joint auditor to determine the extent of audit test to be applied in relation to the area of audit allocated to him and the manner in which it is to be performed.

Consequently, it is the separate and specific responsibility of each joint auditor to enquire in to the review of the prevailing systems internal control relating to the work allocated to him.

Not with standing allocation of the job between the joint auditors on some agreed basis, it is possible that certain areas and matters may continue to be of common concern. Consequently, each auditor should bring to the attention of his co-auditors the matters which require discussion, the disclosure or application of judgment, by the submission of a report or a notice prior to the finalization of audit.

Each joint auditor is to assume that his co-auditor have carried out the audit in accordance with the auditing and assurance standards, laid down by the Institute.

It is not necessary for a joint auditor to review the work performed by his co-auditor or to perform any tests in order to ascertain whether the work has actually been performed.

Each auditor is entitled to assume that his co-auditors will bring to his notice any departure from the Generally Accepted Accounting Principles or any material error noticed in course of the audit unless corrective action has already been taken before the accounts are finalized.

Where separate financial statements of a branch or an unit are reported upon by one of the joint auditors, each joint auditor is entitled to assume that such financial statements comply with all the legal & professional requirements regarding the disclosures to be made and also present a true and fair view of the state of affairs of the unit audited.

As regards the report, where joint auditors are in disagreement with regard to the report, each one of them would be justified in expressing his own opinion through a separate report. Even when more than two joints auditors are appointed, there is no question of minority with regard to audit report.

It can be argued that though, in so far as the delimitation of professional responsibility is concerned the pronouncement has adopted a practical approach to the problems posed by joint audit, all the questions of practical relevance specially those relating to allocation of the audit work might not have been adequately answered. Accounting after all involves complex process. It may not be a simple proposition to rationally allocate the work and to ensure overall truth and fairness on the basis of piecemeal work carried out by different auditors adopting an equal standard. The statement also does not answer the question of civil liability of joint auditors to the client or the third parties.

For the purpose of computation of the number of company audits pursuant to the Sec 224 – IB of the Companies Act each joint auditorship in a company will be counted as one unit.

Joint audit basically implies pooling together the resources and expertises of more than one firm of auditors to render an expert job in a given time period which may be difficult to accomplish acting individually. It essentially involves sharing of total work. Two or more auditors are sometimes appointed, particularly in case of big concerns such as banking or insurance companies, or where the regulations of company so require. In such cases each auditor is jointly responsible, but where the work performed by the auditors is divided by mutual agreement, it may be desirable for each auditor to avoid responsibility for work he has not performed by a specific statement in the report as to the extent of the audit carried out by him.

If the joint auditors are in agreement, a joint report may be furnished, in that case all the signatories of the report will be jointly and severally liable to any and every part of the report. If however, there is no unanimity among the auditors, they may issue separate reports and in that case each one will be liable to his own account of report which he has signed and issued. There is no question of majority opinion prevailing over minority opinion in respect of such audit report.

In addition to above, it is the responsibility of the joint auditors to evaluate the internal control system, and to determine the nature, timing and extent of the audit procedure in respect of the area allotted to him.

2014 - Dec [4] (b) (iii)

Liabilities to third party:

Generally, it appears that as there is no privacy of contract between auditor & third party, he cannot be held liable and as he is never appointed by third party he has nothing to do with such a party & this was confirmed by the case of Le Lievre & Dennes vs Gould 1893.

No doubt there is no privacy of contract, the third party can hold the auditor liable for any fraud.

Auditor has moral responsibility to third party.

If any body relying on the audited statement of a company, takes any decision & suffers any loss because such statements were false, the auditor will be responsible to them.

If auditor had authorized the issue of a prospectus containing misleading statements, he would be held liable for damages to third party, which has purchased the shares of the company on the strength of such a misleading statement even though there might not have been any privacy of contract between the auditor & the shareholder.

Chapter - 18: Audit Report

2014 - Dec [1] (g)

A audit report is an expression of opinion and implies that the auditor has examined relevant records in accordance with generally accepted auditing standards and thereafter he is offering his opinion on the working results and the states of affairs of company.

When an auditor certifies a financial statement it implies that the contents of that statement can be measured and that the auditor has vouched the accuracy of data.

		Audit Report	Audit Certificate
1	Meaning	It is statement giving clear picture of the state of affairs of the company.	It is written confirmation of the accuracy of information stated therein.
2	Opinion	It contains auditor's opinion.	It contains no opinion, it is statement of accuracy of the figures.
3	Basis	On the basis of information and explanation presented to the auditor.	On the basis of data and facts which are capable of being fully certified.
4	Guarantee	It offers no guarantee the correctness of financial statement in absolute terms.	It offers guarantee with regard to correctness of the figures and information contained in the certificate.
5	Coverage	Covers entire account of the entity. All transactions during the year are covered.	Only limited part is covered. It is specific.
6	Responsibility	Auditor is not responsible for any thing wrong in the accounts.	Auditor is responsible for matters for which certificate has been issued.
7	Suggestion	Suggests remedial measures.	No suggestion is given.
8	Nature	It is based on vouching and verification of books of accounts.	Based on checking of arithmetical accuracy.

9	Characteristics	Subjective	Objective
10	Form	It is presented in prescribed format.	No specific format is necessary.
11	Address	It is addressed to the members of the company.	Issued to particular person, sometimes issued in general "to whomsoever it may concern".

Chapter - 19: Standards on Auditing (SA)

2014 - Dec [1] (j)

Following situations require the use of external confirmations that may be useful to auditors:

1. Bank Balances and other Information from Bankers.
2. Account Receivable and payable balances.
3. Stock held by third parties.
4. Property title deeds held by third parties.
5. Loan from tenders.
6. Long outstanding share application money etc.

2014 - Dec [4] (b) (ii)

The objectives and functions of the Auditing and Assurance Standard Board (AASB)

(i) To review the existing and emerging auditing practices worldwide.

(ii) To formulate Engagement Standards, Standards on Quality Control and Statement on Auditing.

(iii) To review and revise the existing Standards and Statements on Auditing.

(iv) To develop Guidance Notes on issues arising out of any Standard, auditing issues pertaining to any specific industry and revise.
(v) To review and revise the existing Guidance Notes.
(vi) To formulate General Clarifications, where necessary, on issues arising from Standards.
(vii) To formulate and issue Technical Guides, Practice Manuals, Studies and other papers.

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FOR NOTES

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