

## 6. THE COMPANY AUDIT – II

**Q.No.1. Define the word “Books of Account” and explain the provisions relating to Books of Account as per Companies Act, 2013? (B)**

**BOOKS OF ACCOUNT:** According to sec. 2(13) of the Companies Act, 2013, Books of Account (BOA) includes records maintained in respect of the following:

- a) all sums of money received and expended by a company and the matters in relation to which to the receipts and expenditure takes place,
- b) all sales and purchases of goods and services by the company the assets and liabilities of the company and
- c) It also includes Cost Records which are required to be maintained as per section 148, if section 148 is applicable to the company.

**PROVISIONS OF SECTION 128:** The provisions relating to books of account which a company is required to maintain are contained in section 128 of the companies Act, 2013 as follows:

1. **Manner of maintenance [Sec. 128(1)]:** Every company is required to prepare and keep books of accounts and financial statements at its registered office for every financial year in the following manner:
  - a) They should give a true and fair view of the state of the affairs of the company, including that of its branch office(s), if any
  - b) They must explain the transactions effected both at the registered office and its branches.
  - c) They must be maintained as per Accrual basis and Double entry system of accounting.
  - d) Company can keep its books of account or other relevant books and papers in electronic mode.
2. **Place of maintenance:** Usually Books of account are required to maintained at Registered office of the company.

**Exceptions:**

- a) **Maintenance at a place decided by BOD [Sec. 128(1)]:**
    - The company may also keep all or any of the books of account at any other place in India as the BOD may decide by passing a Board resolution.
    - Subsequently the company should file a statement in writing with the ROC giving the full address of that place within 7 days of the Boards decision.
  - b) **Maintenance at branches [Sec. 128(2)]:**
    - Books of account relating to the transactions effected at the branch office in India or outside India can be maintained at that branch office itself.
    - Provided proper summarized returns are periodically sent by the branch office to the Registered office of the company or other place as decided by the BOD.
3. **Inspection of books of account [Sec. 128(3)]:**
    - a) **Books of account maintained in India:**

They shall be open for inspection at the registered office of the company or at such other place in India by any director during business hours.
    - b) **Books of account maintained outside India:**

Copies of financial information maintained outside India shall be produced for inspection by any director in accordance with the conditions prescribed under the Companies (Accounts) Rules, 2014 as follows:

- i) The summarized returns of such books of account shall be sent to the registered office at quarterly intervals, and kept open to directors for inspection.
- ii) Where any other financial information maintained outside the country is required by a director,
- The director shall furnish a request to the company setting out the full details of the financial information sought, the period for which such information is sought.
  - This request can be made only by the director himself and not by or through his power of attorney holder or agent or representative.
  - The company shall produce such financial information to the director within 15 days of the date of receipt of the written request.
- c) **Books of accounts of Subsidiary companies:** The inspection in respect of any subsidiary of the company shall be done only by the person authorised in this behalf by a resolution of the BOD.
- 4. Period of Maintenance [sec. 128(5)]:**
- a) The books of account of every company together with the relevant vouchers shall be kept in order by the company for a minimum period of 8 financial years immediately preceding a financial year.
- b) If the company is in existence for a period of less than 8 years, it shall maintain the books in respect of all such preceding years.
- c) Where an investigation has been ordered in respect of the company, the CG may direct that the books of account may be kept for such longer period as it may deem fit.
- 5. Persons responsible for Maintenance & Penalty for Non-compliance [Sec.128(6)]:**
- a) The following persons are responsible for the maintenance of proper books of account-
- i) The managing director
  - ii) The whole-time director in charge of finance,
  - iii) The Chief Financial Officer or
  - iv) Any other person charged by the Board for compliance of the section.
- b) Punishments for non-compliance:
- i) **Imprisonment** : a term which may extend to 1 year or
  - ii) **Fine**: an amount of not less than Rs. 50,000 but which may extend to Rs. 5 lakh or
  - iii) **Both**

REFER PRACTICAL QUESTION NO: 1, 2

**Q.No.2. What are the conditions comply the books of account and other relevant books and papers maintained in electronic mode. (C) (M17 RTP)**

**ELECTRONIC FORM OF BOOKS OF ACCOUNT:** Second proviso to section 128(1) read with the Companies (Accounts) Rules, 2014 allows a company to keep its books of account or other relevant papers in electronic mode.

The books of account and other relevant books and papers maintained in electronic mode shall comply with the following conditions:

- a) The books of account and other relevant books and papers shall remain accessible in India so as to be usable for subsequent reference.

- b) The books of account and other relevant books and papers shall be retained
- Completely in the format in which they were originally generated, sent or received, or
  - In a format which shall present accurately the information generated, sent or received
- c) The information received from branch offices shall not be altered and shall be kept in a manner where it shall depict what was originally received from the branches.
- d) The information in the electronic record of the document shall be capable of being displayed in a legible form.
- e) There shall be a proper system for storage, retrieval, display or printout of the electronic records as the audit committee, if any, or the board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law.
- f) The back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a periodic basis.

The company is required to intimate to the Registrar on an annual basis at the time of filing of financial statement, the following-

- a) The name of the service provider.
- b) The internet protocol address of service provider.
- c) The location of the service provider (wherever applicable).
- d) Where the books of account and other books and papers are maintained on cloud, Such address as provided by the service provider.

**Q.No.3. Define the word "Financial Statements". And explain the provisions relating to financial statements as per companies act, 2013 (B)**

**FINANCIAL STATEMENTS:** According to Sec. 2(40) of the Companies Act, 2013, "Financial Statement" in relation to a company, includes—

- a) A balance sheet as at the end of the financial year;
- b) A profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- c) Cash flow statement for the financial year;
- d) A statement of changes in equity, if applicable; and
- e) Any explanatory notes annexed to, or forming part of, any document referred above.

**Exclusion of Cash flow statement in certain cases:** the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

**PROVISIONS OF SECTION 129:**

The following are the provisions relating to Financial statements as per Sec. 129 of the companies act, 2013

1. **Form and manner of Financial statements [Sec 129(1)]:** The financial statements shall-
- give a true and fair view of the state of affairs of the company or companies,
  - comply with the accounting standards notified under section 133 and
  - be in the format of Schedule III

**Non-Applicability of Schedule III:** The following companies are not required to comply with schedule III

- a) Insurance companies
  - b) Banking companies
  - c) Companies engaged in the generation or supply of electricity
  - d) Companies governed by any other specific Act or law
2. **Laying of Financial statements at every AGM [Sec. 129(2)]:** At every AGM of the company, the BOD of the company shall lay before such meeting the financial statements for the financial year.
  3. **Consolidated Financial Statements [Sec. 129(3)]:** Where a company has one or more subsidiaries (including associate company and joint venture), it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries.
  4. **Deviations from Accounting Standards [Sec. 129(5)]:** If the financial statements of a company do not comply with the Accounting Standards as said in section 129(1), then the company shall disclose in its financial statements the following namely:
    - i) The deviation from the Accounting Standards,
    - ii) The reasons for such deviation, and
    - iii) The financial effects, if any, arising out of such deviation.
  5. **Persons responsible for preparation of financial statements and Punishments for Non Compliance [Sec.129(7)]:**
    - a) The following persons are responsible for the compliance with provisions relating to preparation of financial statements
      - i) The managing director,
      - ii) The whole-time director in charge of finance,
      - iii) The Chief Financial Officer; or
      - iv) Any other person charged by the Board for compliance of the section.
    - b) Punishments for non-compliance
      - i) **Imprisonment:** a term which may extend to 1 year or
      - ii) **Fine:** an amount of Not less than Rs. 50,000 but which may extend to Rs. 5 lakh or
      - iii) Both

REFER PRACTICAL QUESTION NO: 3, 4, 5, 6

#### SIMILAR QUESTIONS:

1. **State the disclosure required to be made in the financial statements if they do not comply with the accounting standards.** (PM, M15 RTP)
- A. Refer – “Deviations from Accounting Standards” in the above answer.

**Q.No.4. Write a short notes on “Authentication of Financial Statements”. (B) (M16-6M)**

#### AUTHENTICATION OF FINANCIAL STATEMENTS [Sec 134]:

1. The Financial Statements, including Consolidated Financial Statement, if any, shall be first approved by the BOD. Subsequently they must be signed on behalf of the board at least by the following-
  - a) The chairperson of the company where he is authorised by the Board or
  - b) By two directors out of which at least one shall be a managing director.

They shall also be signed by

- a) The Chief Executive Officer, if he is a director in the company,
- b) The Chief Financial Officer and the Company secretary, wherever they are appointed;

**In the case of a one person company:** The financial statements shall be signed by only one director, for submission to the auditor for his report thereon.

2. The audit report shall be attached to every financial statement.
3. A signed copy of every financial statement, including consolidated financial statement, if any, shall be issued, circulated or published along with a copy each of—
  - a) Any Notes annexed to or forming part of such financial statement;
  - b) The auditor's report; and
  - c) The Board's report.

#### **SIMILAR QUESTIONS:**

1. Discuss the provisions of sec.134 of the companies Act 2013 regarding the authentication of financial statements? (M16- 6M)
- A. Same as above.

**Q.No.5. Explain the Director's responsibility statement in brief? (A)**  
(PM, RTP N17, M15 RTP, M17 RTP, M16 – 6M)

#### **DIRECTOR'S RESPONSIBILITY STATEMENT [Sec 134(5)]:**

The board's report shall also include a director's responsibility statement, which states the following:

1. Accounting standards are being followed while preparation of annual accounts along with explanation for material departures, if any.
2. Accounting policies applied consistently.
3. Reasonable and prudent judgments, estimates made to give true and fair view of state of affairs and statement of profit & loss of the Company.
4. Proper and sufficient care taken to maintain adequate accounting records for safeguarding assets of the Company, preventing fraud and other irregularities.
5. Prepared annual accounts on Going concern basis.
6. In case of listed Company director has laid internal financial control to be followed by the Company and such controls are adequate and operating effectively.
7. Director had devised proper systems to ensure compliances with provisions of all applicable laws and such systems are adequate and operating effectively.

**NOTE:** "Internal Financial controls" means the policies and procedures adopted by the company for ensuring

- The orderly and efficient conduct of its business, including adherence to company's policies,
- The safeguarding of its assets,
- The prevention and detection of frauds and errors,
- The accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

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**Q.No.6. What are the powers of board that can be exercised only with the approval of members as per section 180? (C)**

**RESTRICTIONS ON POWERS OF BOARD [Sec. 180]:** The Board can exercise the following powers only with the consent of the company by a special resolution.

They are as follows:

1. To sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking, of the whole or substantially the whole of any of such undertakings.
  - a) "Undertaking" shall mean an undertaking -
    - in which the investment of the company exceeds twenty percent of the networth as per last audited balance sheet or
    - Which generates twenty percent of the total income of the company during last year.
  - b) "Substantially the whole of the undertaking" shall mean twenty percent or more of value of the undertaking as per last Audited financial statement.
2. To invest the amount of compensation received by it as a result of any merger or amalgamation in securities other than trusted securities;
 

**NOTE:** Consent of members by way of special resolution is not required if such a compensation is invested in trust securities specified u/s 20 of Indian Trust Act 1882.
3. To borrow money, where the money to be borrowed together with the money already borrowed by the company will exceed aggregate of its paid-up share capital and free reserves,
  - a) The above limit does not include temporary loans obtained from the company's bankers in the ordinary course of business
    - Temporary loans means loan which are repayable on demand or within six months from the date of the loan.
    - But if such loans are utilized for financing any capital expenditure, then they will be included under this clause.
  - b) Provided that the acceptance by a banking company, in the ordinary course of its business, of deposits of money from the public shall not be deemed to be a borrowing of monies by the banking company within the meaning of this clause.
  - c) Special resolution passed by the members must specify the total amount upto which BOD can borrow.
4. To remit, or give time for the repayment of, any debt due from a director.

**Non Applicability:** The provisions of section 180 shall not apply to private companies.

**Q.No.7. Write about restrictions on Charitable Contribution by Board of Directors? (A) (SM)**

**CHARITABLE CONTRIBUTION [section 181]: (N17 – 2M)**

Under section 181, the Board of Directors of a company can contribute to the bonafide and charitable and other funds.

1. **Up to 5% of Average Net profits:** can be made by the directors by passing Board resolution.

2. **Exceeding 5% of its Average Net profits:** can be made only by obtaining prior permission of the company in general meeting.

For the purpose of this section, "Average Net profits" shall mean the Average Net profits for the 3 immediately preceding financial years.

REFER PRACTICAL QUESTION NO. 7

**Q.No.8. What are the prohibitions and restrictions regarding Political Contributions. (A)**

**POLITICAL CONTRIBUTIONS [Sec 182]:**

1. **Prohibition to make Political Contributions:** The following companies are not eligible to make political contributions whether directly or indirectly to any political party.
  - a) A Government company or
  - b) Any other company which has been in existence for less than three financial years.
2. **Restriction to make Political Contribution:** Companies other than above can make political contribution in any financial year as follows:
  - a) Up to 7.5% of Average Net profits: can be made by the directors themselves by passing Board resolution.
  - b) **Exceeding 7.5% of its Average Net profits:** Any company cannot make political contribution in any financial year exceeding 7.5% even with the unanimous approval of all members at any General meeting

For the purpose of this section, "Average Net profits" shall mean the average net profits for the 3 immediately preceding Financial years.

REFER PRACTICAL QUESTION NO: 8

**Q.No.9. Write about contributions to the National Defense Fund. (C)**

**CONTRIBUTIONS TO THE NATIONAL DEFENSE FUND (SEC 183):** The Board can make contributions to the National Defense Fund or any other Fund approved by the CG for the purpose of National Defense to any extent as it thinks fit.

**Q.No.10. What are the transactions which requires prior approval of the company by way of special resolution to be entered with related parties? (C) (N17 – 6M)**

The transactions which requires prior approval of the company by way of special resolution to be entered with related parties are

1. **Contracts or arrangements with criteria as mentioned below**
  - a) sale, purchase or supply of any goods or materials directly or through appointment of agents exceeding 10% of the turnover of the company or Rs.100 crore, whichever is lower;
  - b) selling or otherwise disposing of or buying property of any kind, directly or through appointment of agents, exceeding 10% of net worth of the company or Rs.100 crore, whichever is lower;
  - c) leasing of property of any kind exceeding 10% of the net worth of the company or 10% of turnover of the company or Rs.100 crore, whichever is lower;
  - d) availing or rendering of any services directly or through appointment of agents exceeding 10% of the turnover of the company or Rs.50 crore, whichever is lower;

It may be noted that the limits specified above shall apply for transaction(s) to be entered into either individually or taken together with the previous transactions during a financial year.

2. Is for appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding Rs.2.5 lakh;
3. Is for remuneration for underwriting the subscription of any securities or derivatives thereof of the company exceeding 1% of the net worth.

**Relevant date to compute the above limits:** Audited Financial Statement of the preceding financial year.

In case of wholly owned subsidiary, the special resolution passed by the holding company shall be sufficient for the purpose of entering into the transactions between wholly owned subsidiary and holding company.

**Q.No.11. What are the general points to be considered for “verification of issue of share capital”, whether it is issued for cash or for other than cash? (C)**

### GENERAL AUDIT PROGRAMME TO VERIFY ISSUE OF SHARE CAPITAL:

The following are the general points relating to verification of shares issued for cash or for other than cash.

- a) **Conditions of issue:** Ensure compliance with the conditions of issue contained in the MOA, AOA or any other Prospectus issued for such issue.
- b) **Listing Requirements:** Ensure that the company intending to offer shares to public for subscription by issue of prospectus, has made an application to one or more recognized stock exchanges for the purpose of listing its securities.
- c) **Contracts with underwriters:** Examine the contracts with underwriters to ensure that
  - i) the brokerage and underwriting commission was paid only at the rates authorised by the AOA or as per the Act (5% of issue price) whichever is lower.
  - ii) All the terms and conditions of the contract are complied.
- d) **Examination of Allotment procedure:** Factors to be examined while verifying the “Allotment” procedure:
  - i) Verify that the first allotment was not made until the amount of minimum subscription stated in the Prospectus had been subscribed and until then the amount received was kept deposited in a Scheduled bank as required by Section 39 of the Act.
  - ii) See that the directors have passed a resolution for allotment of shares.
  - iii) See the return of allotment have been filed with the ROC.
  - iv) See that the company has delivered share certificates within 2 months after the allotment of any of its shares.
- e) **Legal requirements:** Verify compliance with the following legal requirements:
  - i) provisions relating to issue of shares at premium (section 52), Prohibition on issue of shares at discount (section 53), and issue of sweat equity shares (section 54) and section 62 (dealing with right shares)
  - ii) Guidelines issued by SEBI.
- f) **Other points:**
  - i) Ascertain that there exists an internal check on receipt of amounts along with the application and that the same throughout has continued to function satisfactorily.
  - ii) Ascertain that the nominal value of shares allotted does not, exceed the authorised capital



**SIMILAR QUESTIONS:**

1. Explain the general programme for verification of share capital?
- A. Refer above answer.

**Q.No.12. What are the special points to be considered for verification of issue of shares for cash? (A)** (PM, N14 RTP, N 12 - 8M)

**VERIFICATION OF SHARES ISSUED FOR CASH:** Usually, there are three stages in the issue of shares for cash, as follows:

- i) Receipt of applications for shares along with application money;
- ii) Allotment of shares and receipt of allotment; and
- iii) Making calls and receipt of call money.

**SPECIAL AUDIT PROGRAMME TO VERIFY ISSUE OF SHARE CAPITAL FOR CASH:**

The audit programme in respect of each of the above mentioned three stages is stated below-

**1. Applications:**

- a) Check that the amount payable on the application on every security is not less than five percent of the nominal amount of security or such other percentage or amount as may be prescribed by the SEBI. (i.e., 25% of nominal value)
- b) Check entries in the Application Book with the original applications and with the entries those in the Cash Book.
- c) Vouch amounts refunded to the unsuccessful applicants with copies of Letters of Regret;
- d) Check the totals columns in the Application Book and confirm the journal entry debiting Share Application Account and crediting Share Capital Account.

**2. Allotment:**

- a) Check whether the amount stated in the prospectus as the minimum amount has been subscribed and the sums payable on such application have been received by the company.
- b) **Consequences of not obtaining minimum subscription**
  - If the stated minimum amount has not been subscribed and the sum payable on subscription is not received within a period of 30 days from the date of issue of the prospectus or such period as may be specified by the SEBI,
  - check that the amount received above is returned within a period of fifteen days from the closure of the issue and
  - if in case the amount is not repaid within such period, the directors in default shall jointly and severally be liable to repay that amount with interest at the rate of fifteen percent per annum.
- c) Verify whether directors has passed resolution for allotment of shares
- d) Compare copies of letters of allotment with entries in the Application and Allotment Book.
- e) Trace entries in the Cash book into the Allotment Book for the verification of amounts collected on allotment.
- f) Trace the amount collected on application as well as those on allotment from the Allotment Book into the Share Register.
- g) Check totals of amounts payable on allotment and verify the journal entry debiting Share Allotment Account and crediting Share Capital Account.

## 3. Calls:

- a) Examine the Director's resolution for making the call.
- b) Trace entries in the Cashbook into the Calls Book for the verification of amounts collected on calls.
- c) Trace postings of the amounts received from the Calls Book (for calls due) and the Cash Book (for calls collected) into the Share Register.
- d) Verify the journal entry, debiting the Call Account and crediting Share Capital with totals of the amounts due.
- e) Check the amount of calls in arrears, if any and their treatment in the books of account.

**SIMILAR QUESTIONS:**

1. As an auditor, how will you verify application and allotment money received on shares issued for cash? (N14 - RTP, N 12 - 8M)  
A. Refer point 1 and 2 above.
2. Write short note on verification of receipt of application for shares along with application money?  
A. Refer point 1 in above.

**Q.No.13. What are the special points to be considered for verification of issue of shares for consideration other than cash? (B) (PM)**

**ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH:**

- a) Study the contract based on which the issue is made to determine
  - The purpose of issue,
  - Number and value of shares to be issued
- b) Examination of the prospectus to see the substance of the contract and the relevant terms of the issue including:
  - The mode of payment of the purchase consideration in case of an issue to a vendor of the business or
  - Commission to the underwriters or any preliminary expenses.
- c) See that the directors passed a resolution for allotment of shares.
- d) Ensuring that proper accounting entry has been passed to record the acquisition of the assets or the business or payment of the expenses (any of these may constitute the consideration) on the one hand and the issue of shares on the other.  
Incidentally, if any premium or discount is involved, ensure that appropriate adjustment entry has been passed therefore.
- e) Sometimes, in view of the nature of transaction, it may be difficult to know whether an allotment is for cash or for a consideration other than cash.  
E.g.: if the allotment is made in adjustment of a bonafide debt payable in money at once, the allotment should be considered as against cash.
- f) If shares are allotted on cash basis though the amount is actually paid later it should constitute an allotment against cash. This position should be kept in view when inquiring into matters stated in section 143(1) of the Companies Act, 2013.

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Q.No.14. How an auditor verify the issue of shares at premium? (A) (PM, M 15 RTP)

**ISSUE OF SHARES AT A PREMIUM [Sec 52]:**

1. **Meaning:** When the issue price of the share is more than the face value, whether for cash or otherwise, the shares is said to be issued at premium.

2. **Verification of issue of shares at a premium [section 52]:**

- a) Check whether AOA permits issue of shares at premium.
- b) Check whether the premium amount is transferred to the "Securities Premium Account" as per section 52.
- c) Verify compliance with SEBI Guidelines.
- d) **Utilization of security premium: (N17 – 5M)**

Verify the Purposes for which the securities premium accounts is utilized.

The securities premium can be utilized only for any of the following purposes as per section 52 of the Companies Act, 2013.

- i) Issuing fully paid bonus shares to members.
- ii) Writing off the balance in preliminary expenses of the company.
- iii) Writing off of the commission paid or discount allowed, or the expenses incurred on issue of shares or debentures of the company.
- iv) For providing the premium payable on redemption of any redeemable preference shares or debentures of the company.
- v) For buy-back of shares or other securities u/s 68.

REFER PRACTICAL QUESTION NO: 9

**SIMILAR QUESTIONS:**

1. "Y Ltd. utilized its securities premium to declare 45% dividend." State the provisions related to application of securities premium account and comment on the statement given. (M 15 RTP)

A. Refer above answer.

2. A portion of securities premium utilized to declare 40% dividend? (PM)

A. Refer point no. D in above answer.

3. Write short note on application of securities premium?

A. Refer point no. D in above answer.

Q.No.15. Briefly discuss the provisions of the Companies Act, 2013 with regard to issue of shares at a discount? (A)

(PM, RTP N17, N16 RTP, M15 RTP, M17 RTP, N09 - 5M, N12 - 5M, M14 - 4M, MTP-M17)

**ISSUE OF SHARES AT A DISCOUNT [Sec 53]:**

1. A company shall not issue shares at a discount, except in the case of an issue of sweat equity shares given under section 54 of the Companies Act, 2013.

2. Any share issued by a company at a discounted price shall be void.

3. **Punishments for Non Compliance:**

a) **Company**

**Fine:** Amount shall not be less than one lakh rupees but which may extend to five lakh rupees and

b) Every officer in default:

- i) **Imprisonment:** Term which may extend to six months or
- ii) **Fine:** Amount shall not be less than one lakh rupees but which may extend to five lakh rupees, or
- iii) **Both**

**Q.No.16. What are sweat equity shares? How do you verify issue of sweat equity shares? (A)** (PM, N15 RTP, N 13- 4M, N16-6M)

**MEANING OF SWEAT EQUITY SHARES:** 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 right in the nature of intellectual property rights or value additions, by whatever name called is known as sweat equity shares.

**ISSUE OF SWEAT EQUITY SHARES [Sec 54]:** As per section 54 of the Companies Act, 2013, the employees may be compensated in the form of 'Sweat Equity Shares'.

1. **Verification of issue of sweat Equity shares:**

- a) The shares must be the class of shares already issued
- b) The issue shall be authorized by a special resolution passed by the company;  
The resolution authorizing the issue should specify:
  - The number of shares,
  - The 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) As on the date of such issue, at least one year must have elapsed since the date on which the company had commenced business.
- d) Check that the Sweat Equity shares are issued to only the employees and directors of the company.
- e) Evaluate the internal controls to ensure that they are not offered to dummy employees.

2. **Compliance requirements:**

- a) In case of listed companies, ensure compliance with regulations made by the SEBI in this behalf.
- b) In case of unlisted companies, the sweat equity shares are issued in accordance with such rules as may be prescribed.

**Note:** The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *pari passu* with other equity shareholders.

**SIMILAR QUESTIONS:**1. **Write short note on sweat equity shares?**

A. Refer above answer.

2. **How do you verify issue of sweat equity shares?**A. Refer 1<sup>st</sup> point in above answer.

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Q.No.17. Audit of buy - back of shares.

(Or)

Power of company to purchase its own securities. (A)

(M 11 - 8M, M 16 – 4M) (For Students Self Study)

**BUY - BACK OF SHARES [Sec. 68]:****1. Pre buy - back requirements:**

- a) Check the sources out of which the buy-back is made to ensure that it is made per section 68(1) of Companies Act, 2013.
- b) Check whether the buy-back is authorized by the AOA and by passing special resolution in a general meeting.
- c) If the buy-back up to 10% of the total paid up equity capital and free reserves of the company, then Board resolution is sufficient along with AOA authorization.
- d) Ensure that the buy-back of equity shares shall not exceed 25% of its total paid-up capital + free reserves of the company.
- e) Ensure that all shares or other specified securities for buy-back are fully paid up.
- f) Verify whether 'Declaration of Solvency' has been filed with ROC and SEBI.

**2. During buy - back requirements:**

- a) The Company can buy-back its shares from:
  - i) Existing shareholders on proportionate basis
  - ii) open market
  - iii) Shares issued to employees by way of sweat equity or ESOP
- b) Verify that buy-back has been completed within 12 months from the date of passing the resolution.

**3. Post buy - back requirements:**

- a) Check that Debt Equity ratio should not be more than 2:1 after such buy-back.
- b) Ensure that proper accounting entries have been passed immediately after the buy-back.
- c) If buy-back is out of free reserves or securities premium,
  - i) Sum equal to Nominal value of such shares bought back shall be transferred to a special account called CAPITAL REDEMPTION RESERVE.
  - ii) This account can be used by the company only for issue of fully paid Bonus shares.
- d) Company shall extinguish and physically destroy the securities so bought-back within 7 days of completion of buy-back.
- e) Company shall not issue same kind of shares within a period of 6 months from the date of buy-back except by way of Bonus shares, ESOP. Sweat Equity, or through conversion of preference shares or debentures into Equity shares.
- f) Ensure that a return containing particulars relating to the buy-back shall be filed with the ROC and the SEBI, within 30 days of completion of buy-back.

**4. Ensure compliance with regulations made by SEBI in case of Listed Companies and provisions of Companies Act, 2013 in case of unlisted companies.****SIMILAR QUESTIONS:****1. Explain the powers of company to purchase its own securities? (M 11 - 8M)**

A. Refer above answer.

**Q.NO.18. Write short note on prohibition to buy-back its own securities in certain circumstances. (A) (M 16 - 4M) (For Students Self Study)**

**PROHIBITION FOR BUY - BACK [Sec. 70]:**

As per provisions of Section 70 of the Companies Act 2013-

1. No company shall directly or indirectly purchase its own shares or other specified securities
  - a) through any subsidiary company including its own subsidiary companies; or
  - b) through any investment company or group of investment companies; or
  - c) if a default, by the company, in
    - i) repayment of deposit or interest payable thereon,
    - ii) redemption of debentures or preference shares or
    - iii) Payment of dividend to any shareholder or
    - iv) repayment of any term loan or interest payable thereon to any financial institutions or bank,

and such default is subsisting i.e., continuing.

Provided that the buy - back is not prohibited if the default is remedied and a period of three years has elapsed after the default ceased to exist.

2. No company shall directly or indirectly purchase its own shares or other specified securities in case such company has not complied with provisions of Sections 92, 123, 127 and 129.
  - a) Section 92 relates to the filing of Annual Return,
  - b) Section 123 and 127 to declaration and payment of dividend and
  - c) Section 129 to the financial statement of the company.

**Q.No.19. As an auditor how do you verify forfeiture of shares? (B)**

**VERIFICATION OF FORFEITURE OF SHARES:**

1. Verify that the AOA authorize the BOD to forfeit shares.
2. Ensure that the power has been exercised by the Board in the best interest of the company.
3. Examine the amount of call which was outstanding in respect of the shares forfeited.
4. Ensure that the notice was given to the defaulting shareholders, warning them that in the event of non-payment, shares shall be forfeited.
5. Verify the minutes of meeting of the directors for such forfeiture of shares.
6. Examine the entries recorded in the books of account consequent to forfeiture of shares.

**Q.No.20. How do you verify Re issue of forfeited of shares? (A) (PM, N 13 - 5M)**

**VERIFICATION OF RE - ISSUE OF FORFEITED SHARES:**

- a) Ascertain that the BOD has the authority under the Articles to re-issue forfeited shares
- b) Check whether proper notice was given to member who has defaulted in payment

- c) Refer to the resolution of the BOD, re-allotting forfeited shares
- d) Vouch the amounts collected from person to whom the shares have been allotted and verify the entries recorded from re-allotment
- e) See that the total amount received on the shares, including that amount received prior to forfeiture, is not less than the par value (i.e., discount on reissue should not exceed the amount forfeited on those shares)
- f) Verify that computation of the amount of surplus resulting on the reissue of shares credited to the Capital Reserve Account
- g) Where partly paid shares are forfeited for non-payment of call, and re-issued as fully paid, the reissue is considered as an issue at a discount and compliance of the provisions of section 53 of the Companies Act, 2013 is essential because issuance of shares at discount other than sweat equity share are void.

**SIMILAR QUESTIONS:**

1. LMN Ltd., forfeited 1,000 equity shares because of non-payment of final call money. On 1st November, 2013 directors reissued all these forfeited shares. As an auditor how will you verify the transaction? (N 13 – 5M)

A. Refer above answer.

**Q.No.21. How do an auditor verify issue of bonus shares? (A)**

(PM, M 16 RTP, M 13 - 4M, N14-4M, MTP-M17)

**VERIFICATION OF ISSUE OF BONUS SHARES [Sec 63]:**

- 1) A company can issue fully paid - up bonus shares to its members, in any manner whatsoever, out of-
  - a) its free reserves;
  - b) the securities premium account; or
  - c) the capital redemption reserve account.
- 2) The auditor should ensure that issue of bonus shares shall not be made by capitalizing reserves created by the revaluation of assets.
- 3) The auditor should also ensure the compliance of condition for capitalization of profits or reserves for the issuing fully paid-up bonus shares like-
  - a) it is authorised by its articles;
  - b) it has been authorised in the general meeting of the company on the recommendation of the Board;
  - c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
  - d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus
  - e) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;
  - f) If the company has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.
  - g) The bonus shares shall not be issued in lieu of dividend

**SIMILAR QUESTIONS:**

1. Anandbhai & Co. Ltd. issued shares to the equity shareholders in the proportion of one bonus share for every three existing shares. As an auditor of the Company how would you verify this issue? (PM,RTP N17, M16 RTP, M 13 - 4M)

A. Refer above answer.

**Q.No.22.As an auditor how do you verify alteration of share capital?**

**(C)**

**VERIFICATION OF ALTERATION OF SHARE CAPITAL:**

The auditor's duties in the circumstances shall be:

- a) verify whether the alteration of capital is authorised by the Articles;
- b) inspect the minutes of the shareholders;
- c) inspect the directors' resolution in regard to allotment, consolidation, conversion or sub-division passed pursuant to the resolution of the members;
- d) obtain Allotment lists containing details of the new holdings of share or stock by each member and to verify the same with the entries;
- e) examine the cancelled share certificates, if any, and agree the same with the counterfoils of new certificates issued;
- f) see that the procedure, prescribed by the Articles in this regard, has been complied with;
- g) verify that the share capital account is correctly shown in the Balance Sheet; and
- h) verify that the necessary intimation to the Registrar contemplated by Section 64 has been sent.

**REFER PRACTICAL QUESTION NO: 10**

**Q.No.23. As an auditor how do you verify reduction of share capital? (B)**

**(N 13 RTP, M 10 - 5M, N 11 - 8M)**

**VERIFICATION OF REDUCTION OF SHARE CAPITAL [Sec 66 of Cos. Act 2013]:**

- a) Examine that the meeting of the shareholders was held to pass the special resolution.
- b) Check whether the AOA authorize reduction of capital.
- c) Verify the order of the Tribunal confirming the reduction and seeing that a copy of the order has been registered and filed with the Register of Companies.
- d) Check the certificates issued by the ROC confirming the reduction of capital.
- e) Vouch the journal entries recorded to reduce the capital and to write down the assets by reference to the resolution of shareholders and other documentary evidence.
- f) Examine that the disclosure has been made as per the schedule III, Part I of the Companies Act, 2013.
- g) Verify the adjustment made in the member's accounts in the register of members.
- h) Check whether appropriate entries are made in the old certificate. Further if the new certificate is issued ensure that the old certificates are cancelled.
- i) Verify that the MOA of the company has been altered and filed with the ROC.



**Q.No.24. Discuss the audit procedure for verification of payment of dividend. (A)**  
(PM, MTP N17, RTP N17, M16 RTP, J 09 - 6M, M12 - 8M)

**VERIFICATION OF DIVIDENDS:**

1. Examine the MOA and AOA to ascertain the dividend rights of different classes of shares.
2. Verify that the profits appropriated for payment of dividends are distributable as per provisions contained in section 123 of the Companies Act, 2013 i.e., after providing depreciation.
3. Check the shareholder's minutes book to verify the dividend declared to confirm the amount of dividend recommended by BOD.
4. Reconcile the amount of dividend warrants outstanding with the balance in the Dividend Bank Account.
5. Check the particulars of members as are entered in the Dividend Register or Dividend list by reference to the Register of Members and cross check the dividend based on the no. of shares held and the amount of CDT if any.
6. The amount of the dividend, including interim dividend, shall be deposited in a scheduled bank in a separate account within five days from the date of declaration of such dividend
7. Check whether the company transfers the total amount of dividend which remains unclaimed, within seven days from the expiration of 30 days from the declaration of dividend, to a special bank account called as the Unpaid Dividend Account u/s 124 of Co.'s Act, 2013.
8. Money transferred to the unpaid account of the company will be transferred to the 'Investor Education and protection Fund' after seven years from the date of such transfer to Unpaid Dividend account.
9. Ensure the compliance with the provisions contained in Rule 3 of companies (declaration and payment of dividend) Rules 2014. Dividends are declaring out of reserves in case of inadequate profits.
10. Ensure disclosure requirements of schedule III has been complied with. Dividend declared after the date of balance sheet is not an adjusting event as per AS – 4 but it should be shown as foot note to balance sheet.

REFER PRACTICAL QUESTION: 11, 12

**Q.No.25. What are the steps in verification of payment of interim dividend? (B)**

**INTERIM DIVIDEND:**

As per section 2(35) of the Companies Act 2013, Dividend includes any Interim dividend. The term 'Interim dividend' means the dividend declared between two AGMs. Interim dividend is declared by BOD.

**VERIFICATION OF PAYMENT OF DIVIDENDS:**

Same as final dividend and write all the points in Q.No. 24 except point no.3

**Q.No.26. What are the points to be considered by the auditor in auditing the allotment of debentures? (B)**  
(PM, N15 RTP, N 11 - 8M)

**FOLLOWING ARE THE STEPS TO BE TAKEN BY AN AUDITOR WHILE DOING AUDIT OF ALLOTMENT OF ALLOTMENT OF DEBENTURES:**

1. Examine that the prospectus or statement in lieu of prospects had been duly filed with the ROC before the date of allotment.

2. Check whether allotment was made with regard to the terms and conditions contained in the prospectus or the statement in lieu of prospectus.
3. Verify the allotment of debentures by reference to the minutes of meeting of the Board of directors.
4. Ensure that the issue of debentures with an option to convert into shares wholly or partly must be approved by a special resolution at the General Meeting.
5. Ensure that the terms & conditions for issuing the secured debentures are complied with.
6. Examine a copy of the debentures trust deed.
7. Examine the stipulation for creation of Debentures Redemption Reserve contained therein as to issue and repayment.
8. Check the compliances with SEBI guidelines.
9. Where debentures have been issued at a discount, the amount of discount should be debited to "Discount on debentures account" so that the debenture account is credited with the full normal value of debentures.
10. Where the debentures are irredeemable & issued at discount, verify that the amount of discount should be written off over a reasonable period of the time.

#### **SIMILAR QUESTIONS:**

1. **How an auditor can audit allotment of debentures?**

A. Refer above answer.

**Q.No.27. Explain provisions relating to Re-opening of accounts on Court's or Tribunal's Orders. (B) (M17 RTP)**

The Ministry of Corporate Affairs vide Notification S.O. 1934 (E) dated 1st June 2016 notified sections 130 of the Companies Act, 2013 with effect from the date of publication of the notification.

#### **RE - OPENING OF ACCOUNTS [Ses.130]:**

1. **When can an application for re-opening of accounts be made:** if
  - a) the relevant earlier accounts were prepared in a fraudulent manner; or
  - b) The affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements
2. **Application by whom:** an application for re-opening of accounts can be made by-
  - i) The Central Government,
  - ii) The Income-tax authorities,
  - iii) The Securities and Exchange Board,
  - iv) Any other statutory regulatory body or authority or
  - v) any person concerned and
3. **Application to whom:** The court of competent jurisdiction or the Tribunal.
4. **Notice by Court or Tribunal:** the court or the Tribunal, as the case may be, shall give notice to the CG, the Income-tax authorities, the SEBI or any other statutory body or authority concerned and shall take into consideration the representations made by them, if any, before passing any order under this section.
5. **Revised accounts shall be final:** Without prejudice to the provisions contained in this Act the accounts so revised or re-cast under this section shall be final.

**Q.No.28. Explain provisions relating to Voluntary revision of financial statements or Board's report. (B) (M17 RTP)**

**VOLUNTARY REVISION OF FINANCIAL STATEMENTS OR BOARD'S REPORT :**

The Ministry of Corporate Affairs vide Notification S.O. 1934 (E) dated 1st June 2016 notified sections 131 of the Companies Act, 2013 with effect from the date of publication of the notification.

1. **When can an application for revision be made:** Section 131 of the Companies Act, 2013 states that if it appears to the directors of a company that—
  - a) the financial statement of the company;
  - b) the report of the Board,
 do not comply with the provisions of section 129 (Financial statement) or section 134 (Financial statement, Board's report, etc.)
2. **For how many years revision can be made:** Any of the three preceding financial years
3. **Application to whom:** The Tribunal
4. **Application by whom:** The Company
5. **Notice by Tribunal:** The Tribunal shall give notice to the CG and the Income-tax authorities, and shall take into consideration the representations made by them, if any, before passing any order under this section.
6. **Filing with ROC:** Copy of the order passed by the Tribunal shall be filed with the Registrar.
7. **Disclosures in Board's report:** the detailed reasons for revision of such financial statements or board's report shall also be disclosed in the Board's report in the relevant financial year in which revision is being made.

**QUESTIONS FOR ACADEMIC INTEREST**

**Q.NO.29. Who has the authority to prescribe Accounting Standards as per the Companies Act, 2013 and explain the relevant provisions? (C) (SM)**

**AUTHORITY TO PRESCRIBE ACCOUNTING STANDARDS [Sec. 133]:**

1. According to Section 133 of the Companies Act, 2013, The CG has the authority to prescribe Accounting Standards.
2. Procedure for issue of Accounting standards:
  - a) First the ICAI recommends accounting standards.
  - b) Then these standards are examined by National Financial Reporting Authority (NFRA).
  - c) NFRA also make its own recommendations.
  - d) Finally CG examines recommendations made by the NFRA and prescribe the standards after consultation with NFRA.
3. But till today there are no such standards are notified by Central Government. Therefore Ministry of Corporate Affairs has clarified that till such standards are notified by CG, the existing standards already issued by ICAI under the Companies Act, 1956 shall continue to apply.
4. **Role of National Financial Reporting Authority:** In respect of accounting standards, its role is limited to advise the Central Government on the accounting standards recommended by ICAI for adoption by companies. But they cannot directly issue such standards.

**Q.No.30.What are the special considerations in an audit of a Limited Company? (C) (PM)**

The following are Special Considerations in an Audit of a Limited Company:

**1. Initial Verification**

- a) Examine basic documents, viz., MOA and AOA of the company, prospectus issued, etc.
- b) Check the certificate of incorporation.
- c) Verify the contracts entered into with vendors or other persons for purchase of property, payment of commission, and examine the date of these contracts with reference to the date of above mentioned certificates. etc.

**2. Examination of Board's Duties**

- a) Ensure that BOD should act well within their powers and no *ultra vires* act is ratified.
- b) Also check that the Board has not exercised the powers that are to be exercised by the members in their General Meeting.
- c) Verify that only acts that can be delegated are in fact delegated to others and that the Board takes decisions only by resolutions at properly constituted meetings.
- d) Inspect minutes of meetings of BOD.
- e) Verify whether the Board has obtained sanction of the Central Government, wherever applicable, e.g., increase in remuneration to Directors in excess of specified amounts prescribed in section 197 and Schedule V.

3. **Compliance with relevant provisions of the Companies Act, 2013** relating to share capital; provision relating to Board, provisions relating to accounts and audit, etc.

**Q.No.31. Write a short note on Capital Redemption Reserve. (PM) (C)**

**CAPITAL REDEMPTION RESERVE:** As per Section 55 of the Companies Act, 2013, where preference shares are proposed to be redeemed out of the profits of the company, there shall (out of such profits) be transferred, a sum equal to the nominal amount of the shares to be redeemed, to a reserve to be called the Capital Redemption Reserve Account. The provisions of the Companies Act, 2013, relating to the reduction of share capital of a company shall apply as if the Capital Redemption Reserve account were paid up share capital of the company. The Capital Redemption Reserve Account may be applied by the company in paying up unissued share of the company to be issued to members of the company as fully paid up bonus shares. Capital Redemption Reserve should be disclosed under the head "Reserves & Surplus" on the Liabilities side of the Balance Sheet as per Part-I of Schedule III to the Companies Act, 2013.

**PRACTICAL QUESTIONS**

**Q.No.1. X Ltd. has its registered office at Mumbai. During the current accounting year it shifted its corporate office to Delhi. The managing director of the company wants to shift company's books of account to Delhi because he holds the view that there is no legal bar in doing so. (N10 - 4M)**

**PROVISION:** Refer Q.NO.1

**CONCLUSION:** In view of the above provisions, X Ltd should maintain its books of account at its registered office at Mumbai. The Managing Director is not allowed to shift its books of account to Delhi unless decision in this behalf is taken by the Board of Directors and a notice is also given to the Registrar of Companies.

**Q.No.2.** The Company had borrowed Rs.100 lacs from ICICI, which it is unable to repay on the due date. The accrued unpaid interest on the same is Rs.25 lacs. There is a stipulation that on default in repayment, there would be a penal interest payable, which would amount to Rs.10 lacs. The company has applied to ICICI for rescheduling the repayment and waiver of a part of the accrued interest and the penal interest. As on the date of audit, the said application is still pending. Based on this application, the management does not wish to provide for the accrued interest and the penal interest.  
comment (PM)

**PROVISION:** A company has to follow accrual system of accounting as per section 128(1) of the Companies Act, 2013.

**ANALAYSIS:** As a matter of fact, the auditor must ensure that provisions for the entire amount of accrued interest as also the penal interest has been made since the same has not been waived on the date of audit.

The contention of the management is not tenable simply because application for rescheduling the repayment and waiver of a part of the accrued interest and the penal interest has been made to the ICICI.

**CONCLUSION:** Since the management does not wish to provide the above amounts, the auditor shall have to qualify the audit report as per the Institute's statement on the subject. The qualification paragraph must bring out clearly the quantitative impact of non-provision of interest on the profits.

**Q.No.3.** Ganga-Kaveri Project Ltd. was incorporated on 1.7.2014. During the year ended 31.3.2015 there was no manufacturing or trading activity except rising of share capital, purchase of land, acquisition of plant and machinery and construction of factory sheds. Therefore, the Chief Accountant of the company contends that for the relevant year there was no need to prepare a Statement of Profit and Loss or any other statement except a Balance Sheet as at 31.3.2015. Comment. (PM)

**PROVISION:** Refer Q.NO.3

**ANALYSIS:** Though the company did not carry any manufacturing or trading activity, the company has carried on certain activities like construction of factory shed, acquisition of plant and machinery, etc. In such a case, it is necessary to provide for depreciation and other expenses.

**CONCLUSION:** The mere fact that there was no manufacturing or trading activity cannot be the basis for not preparing the Statement of Profit and Loss. Therefore, the contention of the Chief Accountant is not correct.

**Q.No.4.** Z Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2016: (PM)

Particulars	Amount (Rs. in lacs)
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of Rs. 40 lacs on the same date, which it has disclosed under the head "Statement of Profit and Loss" on the assets side of the Balance Sheet. Comment.

**PROVISION:** Part I of Schedule III to the Companies Act, 2013 requires that the debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. (N17 – 2M)

**ANALYSIS AND CONCLUSION:** In the given case the accumulated loss of Rs. 40 lakhs should be presented as negative figure in Part I of Schedule III. In the present case, the disclosure requirements of Schedule III to the Companies Act, 2013 have not been followed and, accordingly, the auditor should modify his report.

**Q.No.5 Write a short note on Disclosure requirements of bank balances of a limited company. (PM)**

**DISCLOSURE REQUIREMENTS FOR BANK BALANCE:** As per Part I of Schedule III to the Companies Act, 2013, the disclosure of bank balances is under the head "Cash and Cash Equivalents" in Current Assets as:

- i) Balances with Banks.
- ii) Earmarked balances with banks (for example, for unpaid dividend).
- iii) Balances with banks to the extent held as margin money or security against borrowings, guarantees, other commitments.

**Q.No.6. Discuss the Disclosure requirement relating to Trade Receivables under schedule III to the companies Act 2013. (PM, N 11 - 5 M, M 14 – 5 M)**

**DISCLOSURE REQUIREMENTS RELATING TO TRADE RECEIVABLES UNDER SCHEDULE III TO COMPANIES ACT 2013 IS AS FOLLOWS:**

1. Classification by Age

- a) Debtors outstanding for a period exceeding 6 months and
- b) Other debts.

The amount of provision for doubtful debts shall be shown separately. This is called classification by Age.

2. Classification by nature:

- a) Debts considered good and in respect of which the company is fully secured.
- b) Debts considered good for which the company holds no security other than the debtor's personal security and
- c) Debts considered doubtful or bad.

3. Classification by party:

- a) Debts due by the Directors or other officers of the company, or any of them severally or jointly with any other person. (The term "officer" includes any Director, Manager, or secretary but not auditor).
- b) Debts due by Firms or private companies respectively in which any director is a partner or a director or a member, as the case may be.
- c) Debts due from other companies under the same management along with names of companies concerned.

The maximum amount due, by directors or other officers of the company at any time during the year to be shown by way of a note.

**Q.No.7. XYZ Ltd. Co. Gave a donation of Rs. 50,000 each to a charitable society running a school and a trust set up for the service of blind during financial year ending on 31st march, 2014. The average net profits of the company for the last three years were 15 lakhs. Comment. (PM, N14 RTP, N 09 - 8M)**

**PROVISION:** REFER Q.NO:7

**ANALYSIS:** In the instant case, the company has given donation of Rs. 50,000/- each to the two charitable organisations which amounts to Rs. 1,00,000. Assuming that the charitable organisations are not related to the business of the company, the average profits of the last 3 years is Rs.15 lakhs and the 5% of this works out to Rs. 75,000. Hence the maximum of donation could be Rs. 75,000 only. For excess of Rs. 25,000 the company is required to take prior permission in general meeting which is not been taken.

**Conclusion:** By paying donations of Rs. 1,00,000 which is more than Rs. 75,000, the Board has contravened the provisions of Section 181 of the Companies Act, 2013. Hence the auditor should qualify his report accordingly.

**Q.No.8. Janta Ltd. has made a contribution of RS 7.8 lacs during the financial year ended 31.3.15 to Samaj Seva Party, a political party, for running a teaching institute situated in the rural area, where most of the workers of the company reside. It is admitted that the benefit of the institute is mostly for the children of the workers of the company. The average net profit of the company during the three immediately preceding financial years was RS 100 lakhs. Comment. (PM)**

**PROVISION:** REFER Q.NO. 8

**ANALYSIS:** In the given case, Janta Ltd. has made a contribution of RS 7.8 lacs to Samaj Seva Party, a political party. The average net profit of the company during the three immediately preceding financial years is RS 100 lakhs and the 7½ % of this works out to RS 7.5 lacs.

**CONCLUSION:** As the company has contributed RS 7.8 lacs, there is a violation of the provisions of Sec 182 of the Companies Act, 2013 although the children of its workers are benefited. Therefore, the auditor would have to qualify his report accordingly.

**Q.No.9 Y Ltd. has accumulated losses of Rs.12 crores. The company intends to adjust the accumulated losses against the "share premium account". Is the company permitted to do so under the provisions of the companies act, 2013?**

Refer to Q.No.14 in Theory questions. Hence, the Company is not permitted to adjust its accumulated losses.

**Q.No.10. State briefly, how you will audit Splitting of Shares of Face Value from Rs. 10 to Rs. 1 per share in a joint stock company? (PM)**

Audit of Splitting of Shares of Face Value from Rs. 10 to Rs. 1 per share

- a) Confirm that alteration was authorised by articles.
- b) Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained.
- c) Verify also with reference to Form No. SH-7 filed with the ROC.
- d) Verify that alteration had been effected in copies of Memorandum Articles, etc.
- e) Verify that proper accounting entries have been passed.
- f) Register of members may also be checked to see that the necessary alteration have been effected therein.

**Q.No.11. Directors of Speedway Ltd. declared a final dividend of 30% for 2008—09 in their meeting held on 11-8-2009. Comment.**

**PROVISION:** REFER Q.No. 24

**ANALYSIS AND CONCLUSION:** Hence in the given case, the action of directors of Speedway Ltd. is not in accordance with the law and the auditor should have qualified his report to this effect.

**Q.No.12. The Chief Accountant of AAS Company Limited says that the company, being in loss, would not provide depreciation for the fixed assets during this year. It would provide for the arrears of depreciation when it has profits in the future years; there is nothing wrong in this treatment, as according to the Companies Act, 2013, the company is bound to provide for depreciation only when it intends to declare dividend; in the present case, the company does not declare dividend.**

**PROVISION:** Section 123 of Companies Act, 2013

The company cannot declare dividend unless it has provided for depreciation. But the true and fair view of the results of the company must be reflected in the accounts as per Section 133 of the Companies Act. Generally Accepted Accounting Principles require the depreciation to be charged for fixed assets so that the revenue matches with the cost of expiration.

**ANALYSIS:** The Accountant's view of looking at depreciation as a mere legal requirement for declaration of dividend is partial appreciation of the accounting reality. According to Schedule III of the Act, the profit and loss account shall separately disclose depreciation. If no provision is made for depreciation, the same should be disclosed by way of note.

**CONCLUSION:** Accordingly, if the company persists in not providing the depreciation, the same should be disclosed. again the non-provision will be subject to qualification in the auditor's report even if it has been disclosed in notes.

**NOTE:**

Some of the questions in practice manual relating to Share transfer audit and Option on share capital etc are intentionally not included in our material since they are not at all relevant at IPCC level students and not required for exams.

**THE END**