INTERMEDIATE EXAMINATION

December 2023

COMPANY ACCOUNTS AND AUDIT

P-12(CAA)
Syllabus 2016

Time Allowed: 3 Hours

Full Marks: 100

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

All working notes must form part of the answer.

Wherever required, the candidate may make suitable assumptions and state them clearly in the respective answers.

Section-A

Company Accounts

Answer Question No. 1 which is compulsory and *any three* from Question No. 2, 3, 4 and 5.

1. (a) **Choose the correct alternative in each of the following cases:** 1×6=6

(i) The discount on reissue of forfeited equity shares is debited to _____.

(A) General Reserve A/c

(B) Forfeited Shares A/c

(C) Capital Reserve A/c

(D) Discount on Issue of Shares A/c

(ii) Deferred Tax Liabilities is a part of _____ as per Schedule III of Companies Act, 2013.

(A) Current Liabilities

(B) Non- Current Liabilities

(C) Either of (A) or (B)

(D) None of (A) and (B)

(iii) In which of the following schemes retirement benefit is determined by contribution at agreed rate to the fund together with earnings thereof?

(A) Defined Contribution plan

(B) Defined Benefit plan

(C) Special Benefit plan

(D) None of the above

(iv) Issue of fully paid-up Bonus shares

(A) reduces the shareholders' fund.

(B) increases the shareholders' fund.

(C) does not change the shareholders' fund.

(D) increases the total liability.

(v) Which of the following is a part of cash flow from financing activities of manufacturing company?

(A) Proceeds from sale of old machinery

(B) Collection from customers

(C) Dividend received from a foreign company

(D) Interest paid on a partly convertible debenture

(vi) Which of the following is not a part of General Ledger of a Banking Company?

(A) Control Accounts of all personal ledger

(B) Profit and Loss Account

(C) Revenue and Expense Accounts

(D) Assets Account

(b) Match the following items in Column 'I' with items in Column 'II'. 1×4

	Column 'I'		Column 'II'
1.	Translation of financial statements	(A)	AS 19
2.	Implicit interest rate	(B)	Accounts of Insurance Companies
3.	Advance against depreciation	(C)	AS 11
4.	Actuarial Valuation	(D)	Accounts of Electricity Companies

(c) State whether the following statements are true or false. 1×4

(i) As per Section 55 of the Companies Act, 2013, a company cannot issue irredeemable preference shares.

(ii) Every banking company in India is required to transfer at least 25% of its profit to Reserve Fund.

(iii) Operating Lease is a lease which does not transfer substantially all the risk and reward incidental to ownership.

(iv) As per Schedule III of Companies Act, 2013, audit fee is shown under Employee Benefit Expenses in the Statement of Profit and Loss.

2. (a) The capital structure of a company consists of 1,20,000 Equity shares of ₹ 10 each fully paid up and 4,000, 6% Preference shares of ₹ 100 each fully paid up. The company has ₹ 2,80,000 in General reserve, ₹ 40,000 as Profit and Loss balance (Cr.), ₹ 80,000 in Investment Allowance Reserve (not available for distribution of dividend) and ₹ 44,000 in Securities Premium.

The preference shares are due for redemption at a premium of 10%. The company decides to make a fresh issue of equity shares at par and to use profits and reserves in a manner so that a minimum balance of ₹ 40,000 is maintained in General Reserve. Show the journal entries to give effect of the above arrangements. Assume that the company does not belong to the prescribed class of companies recognized for the purpose of redemption. 8

(b) P. Ltd. leased a machine to Q. Ltd. on the following terms:

(i) Fair value of the machine	₹ 72 lakhs
(ii) Lease term	5 years
(iii) Lease rental per annum	₹ 12 lakhs
(iv) Guaranteed residual value	₹ 2.40 lakhs
(v) Expected residual value	₹ 4.50 lakhs
(vi) Internal rate of return	15%

Discounted factors at 15% for Rupee 1, 1st year to 5th year, are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

Ascertain Unearned Finance Income.

3. (a) Following are the summarized Balance Sheets of Y Ltd. on 31.03.2022 and 31.03.2023 (in ₹): 4

Particulars	31.03.2022 (₹)	31.03.2023 (₹)
I. Equity and Liabilities:		
(i) Shareholders' Fund		
Equity Share Capital (₹)	20,00,000	20,00,000
Balance of Profit and Loss (Cr.)	21,00,000	26,00,000
(ii) Non-current Liabilities		
Long Term Bank Loan	20,00,000	21,20,000
(iii) Current Liabilities		
Trade Payables	7,00,000	8,00,000
	68,00,000	75,20,000
II. Assets:		
(i) Non-current		
Plant, Property and Equipment	34,00,000	40,00,000
Non-current Investments	4,00,000	6,00,000
(ii) Current Assets		
Inventories	13,60,000	14,00,000
Trade Receivables	15,20,000	13,80,000
Cash and Cash Equivalents	1,20,000	1,40,000
	68,00,000	75,20,000

The summarized Statement of Profit and Loss for the year ended 31.03.2023 (in ₹) is also given below.

Sales	83,60,000
Less: Cost of Sales	54,40,000
Gross Profit	29,20,000
Less: Operating Expenses (Including Depreciation ₹ 2,20,000)	13,60,000
	15,60,000
Add: Non-operating Incomes (dividend received)	1,00,000
	16,60,000
Less: Interest paid	2,80,000
Profit before Tax	13,80,000
Less: Income Tax	5,20,000
Profit after Tax	8,60,000
Add: Opening balance	21,00,000
	29,60,000
Less: Dividend	3,60,000
Closing Balance	26,00,000

Prepare a Cash Flow Statement for the year ended on 31.03.2023 as per AS 3. 8

(b) From the following information Calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

(i) Date of Commercial Operation of COD = 1st April, 2023

(ii) Approved Opening Capital Cost as on 1st April, 2023 = ₹ 20,00,000

(iii) Return of equity to be computed @ 14% p.a.

(iv) Additional Capital Expenditure (Allowed) is as follows:

Year	1	2	3	4
Amount (₹)	1,20,000	40,000	30,000	15,000

4

4. The following is the Trial Balance of N Ltd. as on 31.03.2023.

Debit Balances	(₹)	Credit Balances	(₹)
Buildings	34,80,000	Sales	62,40,000
Machinery	12,00,000	Outstanding Expenses	24,000
Closing Stock	10,80,000	Provision for Doubtful Debts (01.04.2022)	36,000
Loose Tools	2,76,000	Equity Share Capital	24,00,000
Purchases (Adjusted)	25,20,000	General Reserve	4,80,000
Salaries	7,20,000	Profit and Loss A/c (01.04.2022)	3,00,000
Directors' Fees	1,20,000	Creditors	11,04,000
Rent	3,12,000	Provision for depreciation:	
Depreciation	2,40,000	On Building	6,00,000
Bad Debts	72,000	On Machinery	6,60,000
10% Investment	14,40,000	14% Debentures	24,00,000
Interest accrued on investment	24,000	Interest on Debentures accrued	1,68,000
Debenture Interest	3,36,000	Interest on Investments	1,44,000
Advance Tax	7,20,000	Unclaimed dividend	60,000
Sundry expenses	2,16,000		
Debtors	15,00,000		
Bank	3,60,000		
	1,46,16,000		1,46,16,000

Additional Information:

(i) Closing stock is more than opening stock by ₹ 9,60,000.

(ii) Provide to doubtful debts @ 4% on Debtors.

(iii) Make a provision for income tax @ 30%.

(iv) Depreciation expense included depreciation of ₹ 96,000 on Building and that of ₹ 1,44,000 on Machinery.

(v) The directors proposed a dividend @ 25% of paid-up capital and a transfer to General Reserve @ 10% of profit after tax.

(vi) Bills Discounted but not yet matured ₹ 1,20,000.

(vii) Authorized capital of the company is 60,000 equity shares of ₹ 100 each. You are required to prepare Statement of Profit and Loss for the year ending on 31st March, 2023 and a Balance Sheet as at that date (Notes to Accounts should form part of your answer).

5. Write short notes on *any three* out of the following: 4×3=12

(a) Advantages provided by Accounting Standards

(b) Accounting Treatment for forfeiture of shares by company

(c) Different types of bonus paid by Insurance Companies

(d) Disclosure Requirement under Schedule III of Companies Act, 2013, for Inventories

Section-B (Audit)

Answer Question No. 6 which is compulsory and *any three* from Question No. 7, 8, 9 and 10.

6. (a) Identify the correct alternative in each of the following cases: 1×6 = 6

(i) Which of the following statements is true?

(A) Internal check is an independent appraisal.

(B) Internal check is an allocation of duties among the staff in such a way that it eliminates the chances of any duplicity of work.

(C) Internal check is an alternative to internal audit.

(D) Internal check is a reactive process.

(ii) Which of the following is not a basic principle of governing an audit as per SA 200?

(A) Integrity

(B) Confidentiality

(C) Subjectivity

(D) Audit evidence

(iii) Audit working paper is the property of the _____.

(A) Auditor

(B) Government

(C) Client

(D) Registrar of Companies

(iv) Which of the following is not a content of audit report as per SA 700 (Revised)?

(A) Addressee

(B) Auditor's opinion

(C) Basis of opinion

(D) Management discussion and analysis

(v) Auditor's duty to report fraud to the Central Government is guided by _____ of the Companies Act, 2013.

(A) Section 139(1)

(B) Section 141(3)

(C) Section 143(12)

(D) Section 148(1)

(vi) The audit report where an Auditor gives an opinion on the truth and fairness of financial statements, subject to certain reservations, is known as _____.

(A) Unqualified Audit Report

(B) Qualified Audit Report

(C) Adverse Audit Report

(D) Disclaimer of Opinion

(b) Match the following items in Column 'I' with items in Column 'II': 1×4=4

	Column I		Column II
1.	SA 530	A	Audit Programme
2.	Procedure to be followed in verification of each item	B	Audit Documentation
3.	Matters observed during the course of audit	C	Audit Sampling
4.	SA 230	D	Audit Note Book

(c) State whether the following statements are true or false: 1×4=4

(i) Casual vacancy in the office of a Cost Auditor is filled by shareholders only.

(ii) An internal auditor can be removed from his office by the Board of Directors.

(iii) Copies of management letters is a part of permanent audit file.

(iv) Cut off procedures are generally applied to trading transactions.

7. (a) Distinguish between Statutory Audit and Government Audit. 5

(b) Discuss the basic elements of internal control system of an organization. 7

8. (a) Discuss the provisions regarding appointment of the first auditor of a company. 7

(b) Discuss the provisions of Section 144 of the Companies Act, 2013 with respect to an auditor prohibited from rendering certain services. 5

9. (a) With reference to the Company's (Cost Rules and Audit) Rules, 2014, as amended, discuss how remuneration of Cost Auditor is fixed. 6

(b) Briely state the factors to be looked into by an auditor before issuing an Unqualified Report. 6

10. Write short notes on *any three* out of the following: 4×3=12

(a) Advantages of Joint Audit

(b) Features of inventory having impact on audit procedures

(c) Auditor's duty regarding audit of income of a trust

(d) Audit of reissue of forfeited shares

PAPER – 12 : COMPANY ACCOUNTS AND AUDIT

SUGGESTED ANSWERS

SECTION A

1. (a)

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

1. (b)

1. (C)
2. (A)
3. (D)
4. (B)

1. (c)

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

2. (a)

In the books of ……

Journal

Particulars		Dr. ₹	Cr. ₹
Bank A/c ...	Dr.	1,20,000	
To Equity Share Capital A/c			1,20,000
6% Preference Share Capital A/c	Dr.	4,00,000	
Premium on Redemption of Preference Shares A/c ….	Dr.	40,000	
To 6% Preference Shareholders A/c			4,40,000
6% Preference Shareholders A/c ……..	Dr.	4,40,000	
To Bank A/c			4,40,000
Securities Premium A/c ……	Dr.	40,000	
To Premium on Redemption of Preference shares A/c			40,000
P/L A/c …….	Dr.	40,000	
General Reserve A/c …….	Dr.	2,40,000	
To Capital Redemption Reserve A/c			2,80,000

2. (b)

Unearned finance income = ₹ 22.0362 lakhs

3. (a)

Cash Flow Statement
For the year ended on 31.03.2023

Particulars	₹
I. Cash flow from operating activities:	1460000
II. Cash flow from investing activities:	(920000)
III. Cash flow from financing activities	(520000)
	20000
Add. Opening cash and cash equivalent	120000
Closing cash and cash equivalent	140000

3. (b)

Return on Equity (₹)

1st Year	2nd Year	3rd Year	4th Year
86520	89880	91350	92295

4.

N Ltd.

Statement of Profit and Loss for the year ended 31st March, 2023

Particulars	₹
I. Total Revenue	6384000
II. Total Expenses	4560000
III. Profit before Tax (I -II)	1824000
IV. Tax Expenses @ 30%	547200
V. Profit for the period	1276800

N Ltd.

Balance Sheet as on 31.03.2023

Particulars	₹
I EQUITY AND LIABILITIES	
(1) Shareholders' Funds	4456800
(2) Non-current Liabilities	2400000
(3) Total Current Liabilities	1903200
Total	8760000
II ASSETS	
(1) Non-current Assets	4860000
(2) Current Assets	3900000
Total	8760000

5. (a)

Advantages provided by Accounting Standards

1. It provides the accountancy profession with useful working rules.
2. It assists in improving quality of work performed by accountant.
3. It strengthens the accountant's resistances against the pressure from directors to use accounting policy which may be suspect in that situation in which they perform their work.
4. It ensures the various users of financial statements to get complete crystal information on more consistencies.

5. (b)

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

The accounting entries are as follows:

(i) On forfeiture of shares

Share Capital A/c ……Dr. (Called-up value)
Securities Premium A/c ……Dr. (Premium due but not collected)
To Calls-in-Arrear A/c (Amount unpaid)
To Forfeited Shares A/c (Capital portion received on shares forfeited)

(ii) On re-issue of shares

Bank A/c ……. Dr. (Proceeds from re-issue)
Forfeited Shares A/c ……. Dr. (Discount on re-issue)
To Share Capital A/c (Paid-up value of shares re-issued)
To Securities Premium A/c (Premium on shares re-issued, if any)

(iii) On transfer of profit

Forfeited Shares A/c (Net profit on forfeiture and re-issue)
To Capital Reserve A/c

5. (c)

Different types of bonus paid by insurance companies:

Bonus is nothing but the share of profit which is payable by the insurance company to the policyholders.

There are five basic types of bonuses in insurance. These are as follows:

(i) Simple Reversionary Bonus - It is a percentage of the sum assured that is added to the policy every year until maturity or the death claim.

(ii) Compound Reversionary Bonus - It is a bonus calculated as a percentage of the sum assured and the bonus accrued last year. It is again paid as a part of the maturity benefit or death benefit.

(iii) Interim Bonus - Bonus is accrued in a life insurance policy every year. However, there is a chance that the death claim occurs before the next declaration. Hence, insurers declare an interim bonus to set the policyholder's family at an advantage and benefit from the bonus amount.

(iv) Cash Bonus - In a cash bonus, the insurance company will declare the bonus and make it available for the policyholder to receive it as cash in hand.

(v) Terminal Bonus - Terminal Bonus is a one-time bonus in insurance paid when the policyholder runs through the entire policy term or a period specified by the insurer.

5. (d)

Inventories shall be classified as –

- **(b)** Raw materials,
- **(c)** Work In Progress,
- **(d)** Finished Goods,
- **(e)** Stock-in-Trade (in respect of goods acquired for Trading),
- **(f)** Stores and Spares,
- **(g)** Loose Tools,
- **(h)** Others (specify nature)
- Goods in Transit should be included under relevant heads with suitable disclosure.
- The heading "Finished Goods" should comprise of all Finished Goods other than those acquired for trading purposes. Those acquired for trading purposes are to be shown under "Stock in Trade".

SECTION - B

6. (a)

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

6. (b)

1. C
2. A
3. D
4. B

6. (c)

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

7. (a)

Statutory Audit	Government Audit
Applicable to i) All private companies ii) All co-operative societies iii) Proprietorship and partnership concerns in some cases e,g tax audit under section 44AB of the Income Tax Act 1961.	Applicable to Government Departments Statutory corporation Government companies
In case of private companies Shareholders In case of sole Proprietor and partnership: proprietor or partners In case of trust: trustees or Managing Committee In case of co-operative societies: Managing Committee with the prior approval of the Registrar	In case of government departments: Comptroller and Auditor General In case of statutory Corporation: as per the provision of the special statue for that corporation. In case of Government Company: Company Law Board, on the advice of the Comptroller and Auditor General.
Report is submitted to the owners/ shareholders in a format prescribed by the Companies Act, 2013, in the case of Companies.	Report Is submitted to the shareholder's and a copy is given to the Comptroller and Auditor General in the format prescribed by the CAG.

7. (b)

The basic elements of internal control system of an organization are:

(i) Financial and other Organizational Plans: This may take the form of manual suitably classified by flow charts. It should specify the various duties and responsibilities of both management and staff, stating the powers of authorization that reside with various members. This is important as in the event of staff absence or otherwise the correct flow of work and the internal control system could be vitiated by any wrong implementation of procedures by staff either unintentionally or willfully.

(ii) Competent Personnel: In any internal control system, personnel are the most important element. When the employees are competent and efficient in their assigned work, the internal control system can be worked and operated efficiently and effectively even if some of the other elements of the internal control system are absent.

(iii) Division of Work: This refers to the procedure of division of work properly among the employees of the organization. Each and every work of the organization. Each and every work of the organization should be divided in different stages and should be allocated to the employees in accordance with quality and skill.

(iv) Separation of operational responsibility from record keeping: If each department of an organization is being assigned to prepare its own records and reports, there may be a tendency to manipulate results for showing better performance. So, in order to ensure reliable records and information, record- keeping function is separated from the operational responsibility of the concerned department.

(v) Separation of the custody of assets from accounting: To protect against misuse of assets and their misappropriation, it is required that the custody of assets and their accounting should be done by separate persons. When a particular person performs both the functions, there is a chance of utilizing the organisation's assets for his personal interest and adjusting the records to relieve himself from the responsibility of the assets.

(vi) Authorization: In a internal control system, all the activities must be authorized by a proper authority. The individual or group which can grant either specific or general authority for transaction s should hold a position commensurate with the nature and significance of the transactions and the policy for such authority should be established by the top management.

(vii) Managerial supervision and review: The internal control system should be implemented and maintained in conformity with the environmental and elemental changes of the concern. By adapting any specific control system permanently, the extent to which the procedures of flexible controls have been followed in real practice should be observed and re-examined.

8. (a)

Provisions Relating to Appointment of First Auditor

(i) In case of a company other than a Government Company [Section 139(6**)]**

- The first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within thirty days from the date of registration of the company.
- In the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall appoint such auditor within ninety days at an extraordinary general meeting.
- The auditor, so appointed, shall hold office till the conclusion of the first annual general meeting.

(ii) In case of a Government Company [Section 139(7)]

- In the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller and Auditor-General of India within sixty days from the date of registration of the company.
- In case the Comptroller and Auditor-General of India does not appoint such auditor within the aforesaid period, the Board of Directors of the company shall appoint such auditor within the next thirty days.
- Further, in the case of failure of the Board to appoint such auditor within the next thirty days, it shall inform the members of the company who shall appoint such auditor within sixty days at an extraordinary general meeting.
- The auditor, so appointed, shall hold office till the conclusion of the first annual general meeting.

8. (b)

An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case maybe, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company, namely:

(i) accounting and book keeping services;
(ii) internal audit;
(iii) design and implementation of any financial information system;
(iv) actuarial services;
(v) investment advisory services;
(vi) investment banking services;
(vii) rendering of outsourced financial services;
(viii) management services; and
(ix) any other kind of services as may be prescribed.

Provided that an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of such commencement.

9. (a)

Remuneration of a Cost Auditor:

For the purpose of sub-section (3) of section 148-

(a) in the case of companies which are required to constitute an audit committee-

(1) the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor.

(i) the remuneration recommended by the Audit Committee under (1) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders,

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

9. (b)

For issuing an Unqualified Audit Report, the auditor needs to consider the following factors:

(i) Evidence: Reasonable evidence is obtained in support of transactions recorded in the books of account.

(ii) Standards: Accounting entries passed in the books of account are in conformity with the generally applicable accounting principles and Indian Accounting Standards followed consistently.

(iii) True and Fair: The Financial Statements prepared represent a true and fair summary of the transactions that took place during the year.

(iv) Classification: The process of classification and aggregation followed in the preparation of the Financial Statements is fair and it does not hide a material fact nor does it highlight something, which may distort the real state of affairs.

(v) Format: The form of Financial Statements is in accordance with the form prescribed by law, if any.

(vi) Free of Misstatements: There are no material misstatements in the Financial Statements. No material transaction recorded in the books of account is illegal or beyond the legal competence of the company.

(vii) Disclosure: All the disclosures statutorily required or otherwise relevant have been made appropriately.

10. (a)

The various advantages that accrue out of Joint Audit are enumerated below:

(i) Lower workload

(ii) Timely completion of work

(iii) Sharing of expertise

(iv) Improved quality of services

(v) Healthy competition

(vi) Quality of performance

(vii) Knowledge pool

10. (b)

The following features of inventories have an impact on the related audit procedures:

(i) By their very nature, inventories normally turn over rapidly.

(ii) Inventories are susceptible to obsolescence and spoilage. Further, some of the items of inventory may be slow-moving while others may follow a seasonal pattern of movement.

(iii) Inventories are normally movable in nature, although there may be some instances of immovable inventories also, e.g., in the case of an entity dealing in real-estate.

(iv) All the items of inventory may not be located at one place but may be held at different locations such as factories and warehouses, or with third parties such as selling agents.

(v) The individual items of inventory may not be significant in value, but taken together, they normally constitute a significant proportion of total assets and current assets of manufacturing, trading and certain service entities.

(vi) Physical condition (e.g., stage of completion of work-in-process in certain industries) and existence of certain items of inventories may be difficult to determine.

(vii) Valuation of inventories may involve varying degrees of estimation, including expert opinions, e.g., in the case of jewelry.

10. (c)

An auditor needs to consider the following points while conducting the audit of income and expenditure of a trust:

(i) Subscription and donation: These institutions receive subscriptions and donations which form the major part of their collections. Therefore, the auditor should check the following:

- The amount or the rate of the annual subscription.
- Any instructions given by the donors as to the specific utilization of donation.
- Adequacy of internal controls existing as regards unused receipt books, counter foils, etc.
- Where subscriptions are received in advance these should be properly dealt with in the accounts.

(ii) Legacies received: Verify the amounts of legacies received by reference to correspondence with any figures and other available information's.

(iii) Income from Investment: Where the institution has made any investments or given loans, the amount of dividend and interest should be properly vouched with reference to the counterfoils or dividend warrants received. It should be ensured that such loans or grants are given under proper authorizations.

10. (d)

The auditor needs to consider the following while conducting an audit of reissue of forfeited shares.

(i) The auditor should ascertain that the board of directors has the authority under the Articles of Association of the company to reissue forfeited shares. Check the relevant resolution of the Board of Directors.

(ii) Vouch the amounts collected from persons to whom the shares have been allotted and verify the entries recorded from re-allotment. Auditor should check the total amount received on the shares including received prior to forfeiture, is not less than the par value of shares.

(iii) Verify that computation of surplus amount arising on the reissue of shares credited to Capital Reserve Account and

(iv) Where partly paid shares are forfeited for non-payment of call, and re-issued as fully paid, the reissue is considered as an allotment at a discount and compliance of the provisions of Section 53 is essential.