

SAP 2 (i) Inter New Syllabus Taxation Answer key

1 a.

**Computation of Total Income for the A.Y.2018-19**

Particulars	₹	₹
<b>Income from Salaries</b>		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity ( <b>Note 1</b> )		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25 <sup>th</sup> wedding anniversary by employer ( <b>See Note 3</b> )		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		<b>4,55,760</b>
<b>Profits and Gains of Business or Profession</b>		
Lease of 2 trucks on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two trucks (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
<b>Income from Other Sources</b>		
Interest on bank FDRs	5,860	
Interest from debentures	7,540	
Dividend on shares [ <b>Exempt under section 10(34)</b> ]	Nil	13,400
<b>Gross total Income</b>		<b>6,49,160</b>
Less: Deductions under Chapter VI-A		

<b>Section 80C</b>		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
<b>Section 80D - Mediciam Insurance</b>		12,500
<b>Section 80G (Note 4)</b>		10,600
<b>Total Income</b>		<b>5,00,690</b>
Tax on total income		
Income-tax		12,638
Add: Education cess @ 2%		253
Add: Secondary and higher education cess @ 1%		126
<b>Total Tax Payable</b>		<b>13,017</b>
<b>Tax Payable (rounded off)</b>		<b>13,020</b>

**Notes:**

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)  
 $= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$   
 $= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$
3. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of *Circular No.15/2001 dated 12.12.2001* that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,50,760.
4. Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Gross Total Income i.e. ₹ 51,129, whichever is lower)	5,500
<b>Total deduction</b>	<b>10,600</b>

Adjusted Gross Total Income = Gross Total Income – Deductions under section 80C and 80D = ₹ 6,49,160 – ₹ 1,37,870 = ₹ 5,11,290.



- (i) **TDS on rent for building and machinery:** Tax is deductible on rent under section 194-I, if the aggregate amount of rental income paid or credited to a person exceeds ₹ 1,80,000. Rent includes payment for use of, *inter alia*, building and machinery.

The aggregate payment made by Mac Ltd. to Ramesh towards rent in P.Y. 2017-18 is ₹ 1,85,000 (i.e., ₹ 1,35,000 for building and ₹ 50,000 for machinery). Hence, Mac Ltd. has to deduct tax @10% on rent paid for building and tax @2% on rent paid for machinery.

Tax to be deducted = ₹ 14,500 (i.e., ₹ 1,35,000 x 10% = ₹ 13,500 + ₹ 50,000 x 2% = ₹ 1,000)

- (ii) **TDS on compensation for compulsory acquisition:** Tax is deductible at source @10% under section 194LA, where payment is made to a resident as compensation or enhanced compensation on compulsory acquisition of any immovable property (other than agricultural land).

However, no tax deduction is required if the aggregate payments in a year does not exceed ₹ 2, 50,000.

Therefore, no tax is required to be deducted at source on payment of ₹ 2,45,000 to Mr. X, since the aggregate payment does not exceed ₹ 2,50,000.

2 a

**Computation of Total Income of Mr. Shiva for A.Y. 2018-19**

Particulars	₹	₹
<b>Gross Total Income</b>		7,75,000
<b>Less: Deduction under section 80C</b>		
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	78,000
<b>Deduction under section 80D</b>		
Medical Insurance premium in respect of self and spouse		26,000
<b>Deduction under section 80G (See Working Note below)</b>		91,050
<b>Total income</b>		<b>5,79,950</b>

**Working Note: Computation of deduction under section 80G**

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Jawaharlal Nehru Memorial Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	1,50,000	50% subject to qualifying limit (See Note below)	13,550
				<b>91,050</b>

**Note** - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,71,000, in this case.

₹ 67,100, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for

100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 1,50,000 to public charitable trust is restricted to ₹ 27,100 (being, ₹ 67,100 - ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 13,550, which is 50% of ₹ 27,100.

2 b.

**Proviso:** The Proviso to a section is incorporated to specify the exception(s) to the provision contained in the respective section i.e., the proviso spells out the cases where the provision contained in the respective section would not apply or where the provision contained in the respective section would apply with certain modification.

**Explanation:** An *Explanation* is incorporated in a section to provide a clarification relating to the provision contained in that section. Generally, an *Explanation* is clarificatory in nature.

3 a

**Computation of Taxable Income of Mr. Raju for the A.Y. 2018-19**

Particulars	₹	₹
<b>Salaries</b>		
Income from Salary	2,50,000	
Ishita's salary (₹ 15,000 x 12) [See Note 1]	<u>1,80,000</u>	
	4,30,000	

Less: Loss from house property set off against salary income as per section 71(3A) [See Note 2]	<u>2,00,000</u>	2,30,000
<b>Capital Gains</b>		
Short term capital gain	1,40,000	
Less: Loss from tea business (₹ 96,000 x 40%) [See Note 3 & 4]	<u>38,400</u>	1,01,600
<b>Income from Other Sources</b>		
Dividend income [See Note 5]		<u>1,00,000</u>
<b>Taxable Income</b>		<b>4,31,600</b>

**The following losses can be carried forward for subsequent assessment years:**

- |   |          |
|---|----------|
| (i) Loss from house property to be carried forward and set-off against income from house property   | ₹ 20,000 |
| (ii) Long-term capital loss of A.Y. 2015-16 can be carried forward and set-off against long-term capital gains  | ₹ 86,000 |
| (iii) 60% of losses from tea business to be carried forward and set-off against agricultural income. The agricultural income, after set off such losses would be considered for the purpose of applying the concept of partial integration of agricultural income with non-agricultural income. | ₹ 57,600 |

**Notes:**

- As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Ishita is not adequately qualified for the post and Mr. Raju has substantial interest in Chander Ltd by holding 21% of the shares of the Chander Ltd., the salary income of Mrs. Ishita to be included in Mr. Raju's income.
- As per section 71(3A), loss from house property can be set off against any other head of income to the extent of ₹ 2,00,000 only.
- 60% of the losses from tea business is treated as agricultural income and therefore exempt. Loss from an exempt source cannot be set off against profits from a taxable source.
- As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 38,400 set off against short term capital gains.
- Dividend received from Malpani Ltd, an Indian Company upto ₹ 10,00,000 is exempt under section 10(34). ₹ 1,00,000, being dividend received in excess of ₹ 10 lakh would be taxable @ 10% as per section 115BBDA. Set off of losses is not permissible against such income.
- Loss from Card games can neither be set off against any other income, nor can it be carried forward.
- As per section 74(1), brought forward Long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2019-20 for set-off against long-term capital gains.



3 b

**Requirement of quoting PAN in respect of certain transactions [Rule 114B of Income-tax Rules, 1962]**

- (i) **PAN not required to be quoted:** Mr. A is not required to quote his PAN while making payment ₹ 50,000 in cash to a hotel Radisson Blu, Ahmedabad, since such payment does not exceed ₹ 50,000.
- (ii) **PAN is mandatorily required to be quoted:** Mr. Abhishek is required to quote his PAN while making contract of ₹ 1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956, since amount of the transaction exceeds ₹ 1,00,000.
- (iii) **PAN is required to be quoted:** PAN has to be mandatorily quoted while making payment of ₹ 70,000 to Mutual Funds for purchase of its units, since such payment exceeds ₹ 50,000.

4 a

**Computation of depreciation allowance under section 32 for the A.Y. 2018-19**

Particulars	₹	Plant and Machinery (15%) (₹)	Plant and Machinery (40%) (₹)
Opening WDV as on 01.04.2017		5,78,000	-
Add: Plant and Machinery acquired during the year			
- Second hand machinery	2,00,000		
- Machinery Y	8,00,000		
- Air conditioner for office	3,00,000		
- Machinery Z	3,25,000	16,25,000	
- Air pollution control equipment		-	2,50,000
		22,03,000	2,50,000
Less: Asset sold during the year		3,10,000	Nil
Written down value before charging depreciation		18,93,000	2,50,000

<b>Normal depreciation</b>			
40% on air pollution control equipment (₹ 2,50,000 × 40%)		-	1,00,000
Depreciation on plant and machinery put to use for less than 180 days@ 7.5% (i.e., 50% of 15%)			
- Second hand machinery (₹ 2,00,000 × 7.5%)	15,000		
- Machinery Z (₹ 3,25,000 × 7.5%)	24,375	39,375	
15% on the balance WDV being put to use for more than 180 days (₹ 13,68,000 × 15%)		2,05,200	

Particulars	₹	Plant and Machinery (15%) (₹)	Plant and Machinery (40%) (₹)
<b>Additional depreciation</b>			
- Machinery Y (₹ 8,00,000 × 20%)	1,60,000		
- Machinery Z (₹ 3,25,000 × 10%, being 50% of 20%)	32,500		
- Air pollution control equipment (₹ 2,50,000 × 20%)		1942,500	50,000
<b>Total depreciation</b>		<b>4,37,075</b>	<b>1,50,000</b>

**Notes:**

- (1) Power generation equipments qualify for claiming additional depreciation in respect of new plant and machinery.
- (2) Additional depreciation is not allowed in respect of second hand machinery.
- (3) No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.
- (4) The balance 50% additional depreciation in respect of Machinery Z of ₹ 32,500 (10% × ₹ 3,25,000) can be claimed as deduction in subsequent financial year i.e., F.Y. 2018-19.

4 b

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

(i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y. 2016-17 exceeds ₹ 100 lakhs. Thus, in present case, since the turnover of the assessee is less than ₹ 100 lakhs, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.

(iii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 100 lakhs in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

(iv) The obligation to deduct tax at source under section 194-H from commission paid in excess of ₹ 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2016-17 exceeds ₹ 100 lakhs. Thus, in present case, since the turnover of the assessee is less than ₹ 100 lakhs, he is not liable to deduct tax at source. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

5

#### Computation of Gross Total Income of Mr. Madhav for the A.Y. 2018-19

Particulars	₹	₹	₹
Income from profession			3,50,000
		3,88,451	
Less: Exemption u/s 10(32) in respect of income of minor child		<u>1,500</u>	
			<u>3,86,951</u>
<b>Gross Total Income</b>			<b><u>7,36,951</u></b>



**Notes:**

- (1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 27,500 arising to handicapped son, Master Tapan, would not be clubbed with the income of Mr. Madhav
- (2) Income of the other minor child, Master Manan, is includible in the hands of Mr. Madhav, assuming that Mr. Madhav's income is higher than that of his wife.
- (3) In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Manan held the asset, i.e., F.Y.2010-11, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

**Computation of gross total income of Mr. Madhav for the A.Y. 2018-19**

Particulars	₹	₹	₹
Income from profession			3,50,000
<b>Income of minor son Manan</b>			
<b>Capital gains</b>			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [₹ 80,000 x 272/113]	<u>1,92,566</u>	3,07,434	
<b>Income from Other Sources</b>			
Dividend on equity shares [Exempt u/s 10(34)]	-		
Interest on company deposit [₹ 3,00,000 x 15% x 5/12]	<u>18,750</u>	<u>18,750</u>	
		3,26,184	
Less: Exemption u/s 10(32) in respect of income of minor child		<u>1,500</u>	
			<u>3,24,684</u>
<b>Gross Total Income</b>			<b><u>6,74,684</u></b>

6 a

- (a) As per section 22 of the CGST Act, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds ₹ 20 lakh [₹ 10 lakh in case of special category States except Jammu and Kashmir], within 30 days from the date on which it becomes so liable to registration. Where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration otherwise it is the date of grant of registration.

In the given case, threshold limit of registration for Tirupati Box Manufacturing Co. is ₹ 20 lakh as it is engaged in making taxable supplies from Andhra Pradesh. The aggregate turnover of Tirupati Box Manufacturing Co. exceeded ₹ 20 lakh on 01.11.20XX. Thus, it is liable to get registered by 01.12.20XX [30 days] in the State of Andhra Pradesh.

Since Tirupati Box Manufacturing Co. applied for registration on 28.11.20XX i.e. before the expiry of 30 days from the date on which it becomes so liable to registration, the effective date of registration in its case is 01.11.20XX.

6 b

#### Computation of ITC available with Ramoplast Soap Factory

Particulars	Amount (₹)
Soap making machine [ITC in respect of goods used in course/furtherance of business is available in terms of section 16 of the CGST Act]	50,000
Motor vehicles for transportation of inputs [ITC in respect of motor vehicles and conveyances is blocked, except when used, <i>inter alia</i> , for transportation of goods, in terms of section 17(5) of the CGST Act]	70,000
Membership of 'Fit and Fine' health and fitness centre for its employees [ITC in respect of membership of a club, health and fitness centre is blocked in terms of section 17(5) of the CGST Act]	Nil
Inputs stolen from the factory [ITC in respect of goods stolen is blocked in terms of section 17(5) of the CGST Act]	<u>Nil</u>
Total ITC available	<u>1,20,000</u>


7.


10. Registration will confer following advantages to the business:

- Legally recognized as supplier of goods or services.
- Proper accounting of taxes paid on the input goods or services which can be utilized for payment of GST due on supply of goods or services or both by the business.
- Legally authorized to collect tax from his purchasers and pass on the credit of the taxes paid on the goods or services supplied to purchasers or recipients.
- Become eligible to avail various other benefits and privileges rendered under the GST laws.

8 a

### What are CPIN, CIN, BRN and E-FPB?

 **CPIN** stands for Common portal Identification Number. It is created for every Challan successfully generated by the taxpayer. It is a 14-digit unique number to identify the challan. CPIN remains valid for a period of 15 days.

 **E-FPB** stands for Electronic Focal Point Branch. These are branches of authorized banks which are authorized to collect payment of GST. Each authorized bank will nominate only one branch as its E-FPB for pan India transaction.

The E-FPB will have to open accounts under each major head for all governments. Any amount received by such E-FPB towards GST will be credited to the appropriate account held by such E-FPB. For NEFT/RTGS Transactions, RBI will act as E-FPB.

8 b

### Computation of input tax credit (ITC) available with Fun Pharma Private Limited for the month of September, 2017

Particulars	₹
Purchase of cabs used for the transportation of its employees [Note-1]	Nil
Inputs consisting of three lots, out of which first lot was received during the month [Note-2]	Nil
Capital goods [Note-3]	2,25,000
Outdoor catering service availed on Women's day [Note-4]	<u>Nil</u>
<b>Total ITC</b>	<b>2,25,000</b>

#### Notes:-

1. Section 17 of CGST Act, 2017 provides that ITC on motor vehicles can be availed, *inter alia*, when they are used for making the taxable supply of transportation of passengers i.e., if the taxable person is in the business of transport of passengers. In the given case, since the supplier is a manufacturer, it cannot avail credit on cabs used for transportation of its employees.
2. When inputs are received in instalments, ITC can be availed only on receipt of last instalment in terms of section 16 of CGST Act, 2017.
3. ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC vide section 16 of CGST Act, 2017 .
4. ITC on outdoor catering is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply in terms of section 17 of CGST Act, 2017.



9 a

As per section 25 read with CGST Rules, 2017, where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration. Since, Sangri Services Ltd.'s turnover exceeded ₹ 20 lakh on 12th August, it became liable to registration on same day. Further, it applied for registration within 30 days of so becoming liable to registration, the effective date of registration is the date on which he becomes liable to registration, i.e. 12th August.

As per section 31 read with CGST Rules, 2017, every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Revised Tax Invoices shall be issued within 1 month from the date of issuance of certificate of registration. Revised Tax Invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration.

Therefore, in the given case, Sangri Services Ltd. has to issue the Revised Tax Invoices in respect of taxable supplies effected during the period starting from the effective date of registration (12<sup>th</sup> August) till the date of issuance of certificate of registration (6<sup>th</sup> September) within 1 month from the date of issuance of certificate of registration, i.e. on or before 6<sup>th</sup> October.

9 b

- (i) Mr. B can rectify the discrepancy in valid GSTR-3 for the month of September, 2017 in terms of section 42(5).

As per section 39(9), the maximum time limit for the rectification of the discrepancy is the earlier of the following two dates:

- (a) Due date of filing of return for the month of September following the end of the financial year 2017-18 [i.e., 20<sup>th</sup> October, 2018]

or

- (b) Actual date of filing of the relevant annual return i.e., 10<sup>th</sup> November, 2018.

Thus, Mr. B cannot rectify the discrepancy beyond 20<sup>th</sup> October, 2018.

- (ii) If Mr. B does not rectify the discrepancy in his valid return for September, 2017, the excess ITC claimed by Mr. A will be added in the output tax liability of Mr. A in his GSTR-3 for the month of October, 2017. If Mr. B does not rectify the discrepancy by 20<sup>th</sup> October, 2018, Mr. A will never be able to reclaim ITC of ₹ 15,000.

1 .

**(iii) Directors' Responsibility Statement [Section 134(5)] :** The Directors' Responsibility Statement referred to in 134(3) (c) shall state that—

- (1) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (2) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;
- (3) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (4) the directors had prepared the annual accounts on a going concern basis; and
- (5) the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.  

Here, the term "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;
- (6) the directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

2

**Corporate Social Responsibility Committee:** According to Section 135 of the Companies Act, 2013 read with the Companies (Corporate Social Responsibility) Rules, 2014, every company including its holding or subsidiary, and a foreign company defined under section 2(42) of the Companies Act, 2013, having its branch office or project office in India, having -

- (1) net worth of rupees 500 crore or more, or
- (2) turnover of rupees 1000 crore or more or
- (3) a net profit of rupees 5 crore or more

during any financial year shall constitute a Corporate Social Responsibility Committee of the Board.

"Net worth" [Section 2(57)] means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

In the present case,

-turnover of Rera Ltd. is ₹ 100 crore,

-net profit of ₹ 3 crore and

-net worth of ₹ 253 crore (Net profit + securities premium -accumulated loss= 3 + 300 – 50=253 crore).

Hence, RERA Ltd. is not fulfilling any criteria prescribed for constitution of CSR committee. So, it is not obligatory for Rera Ltd. to constitute CSR Committee.

[Note 1: - It can also be presumed that net profit of the current year has already been considered while calculating accumulated losses.]

[Note 2: Since paid-up share capital value is not given in the question, it has been presumed that accumulated losses as stated in the question is given after taking into consideration the paid-up share capital, i.e. net of accumulated losses less paid-up share capital].

3.



- (i) In accordance with the provisions of the Companies Act, 2013, as contained under section 129(3) and (4):

Where a company has one or more subsidiaries, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own. The consolidated financial statements shall also be laid before the AGM of the company along with the laying of its own financial statement. The company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiaries in Form AOC-1. For the purpose of consolidated financial statements, 'subsidiaries' shall include associate company and joint venture.

- (ii) According to *Companies (Accounts) Rules, 2014*, the consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards. However, for a company which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions of consolidated financial statements provided in Schedule III to the Act. The provisions applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, also apply to the consolidated financial statements.
- (iii) If the financial statements of a company do not comply with the accounting standards, the company shall disclose in its financial statements the following viz.
- (a) The deviation from the accounting standards,
  - (b) The reasons for such deviation, and
  - (c) The financial effects, if any, arising out of such deviation.
- (iv) The Central Government may, on its own or on any application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of this Section or the rules made thereunder, if it is considered necessary to grant such exemption in the public interest. Any such exemption may be granted either unconditionally or subject to such conditions as may be specified in the notification.

- (b) For the sake of avoiding confusion and mixing up, the resolutions are generally moved separately in the annual general meeting. However, there is nothing illegal if the Chairman of the meeting desires that two or more resolutions should be moved together, unless any member requires that each resolution should be put to vote separately or unless a poll is demanded in respect of any.

Where notice has been given of several resolutions, each resolution must be put separately. However, if the meeting unanimously adopts all the resolutions, this would not be illegal barring a few occasions.

One resolution which should be moved separately is relating to appointment of directors at a general meeting of a public or private company, where two or more directors cannot be appointed as directors by a single resolution.

Hence, in the instant case, all the nine businesses cannot be moved together as two businesses were regarding appointment of Mr. Sahu and Mr. Pranav as directors. Besides these two resolutions, other seven resolutions can be moved together if the members unanimously agree.

4 b.

Section 144 of the Companies Act, 2013 provides for Auditor not to render certain services. According to this section :

- (i) 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 may be. But such services 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—
  - (a) accounting and book keeping services;
  - (b) internal audit;
  - (c) design and implementation of any financial information system;

- (d) actuarial services;
- (e) investment advisory services;
- (f) investment banking services;
- (g) rendering of outsourced financial services;
- (h) management services; and
- (i) any other kind of services as may be prescribed. [However no other kind of services has been prescribed till date]



- (ii) **Explanation :** The term "directly or indirectly" shall include rendering of services by the auditor,—



(a) (i) **Class of companies required to appoint Internal Auditor:** Section 138 of the Companies Act, 2013 and the Companies (Accounts) Rules, 2014 prescribes the class of companies required to appoint Internal Auditor. According to it, following class of companies shall be required to appoint an internal auditor or a firm of internal auditors which may be either an individual or a partnership firm or a body corporate, namely:

1. Every listed company;
2. Every unlisted public company having –
  - (a) Paid up share capital of 50 crore rupees or more during the preceding financial year; or
  - (b) Turnover of 200 crore rupees or more during the preceding financial year; or
  - (c) Outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year; or
  - (d) Outstanding deposits of 25 crore rupees or more at any point of time during the preceding financial year; and
3. Every private company having –
  - (a) Turnover of 200 crore rupees or more during the preceding financial year; or
  - (b) Outstanding loans or borrowings from banks or public financial institutions exceeding 100 crore rupees or more at any point of time during the preceding financial year.

As per the facts given in the question, Natraj Limited is an unlisted public company with the paid up share capital of ₹ 80 cores during the preceding financial year with the turnover of ₹ 110 crores. Since, Natraj Limited fulfills one of the criteria with paid up share capital of more than 50 crore rupees during the preceding financial year, it is mandatory for the Natraj Limited to appoint an internal auditor for the financial year 2017-18.

(ii) **Qualifications of Internal Auditor**

(a) Internal Auditor shall either be a chartered accountant or a cost accountant or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Here, the term "Chartered Accountant" or "Cost Accountant" shall mean a "Chartered Accountant" or a "Cost Accountant", as the case may be, whether engaged in practice or not.

(b) The internal auditor may or may not be an employee of the company.

## SAP 2(i) Inter New Syllabus Auditing Answer key

1 A.

- (v) **Incorrect.** The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

SQC 1 "Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services", requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

1 b.

**Incorrect.** Analytical procedures use comparisons and relationships to assess whether account balances or other data appear reasonable. Analytical procedures are used for the following purposes:

- (i) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and
- (ii) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity.

1 c.

- (v) **Incorrect.** Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation.

1 d.

- i) **Incorrect: Negative confirmation request** – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

**Positive confirmation request** – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

1 e.

**Incorrect:** Whatever may be the approach non-statistical or statistical sampling, the sample must be representative. This means that it must be closely similar to the whole population although not necessarily exactly the same. The sample must be large enough to provide statistically meaningful results.

2 (i)



## 6. DATA ANALYTICS FOR AUDIT

In today's digital age when companies rely on more and more on IT systems and networks to operate business, the amount of data and information that exists in these systems is enormous. A famous businessman recently said, "Data is the new Oil".

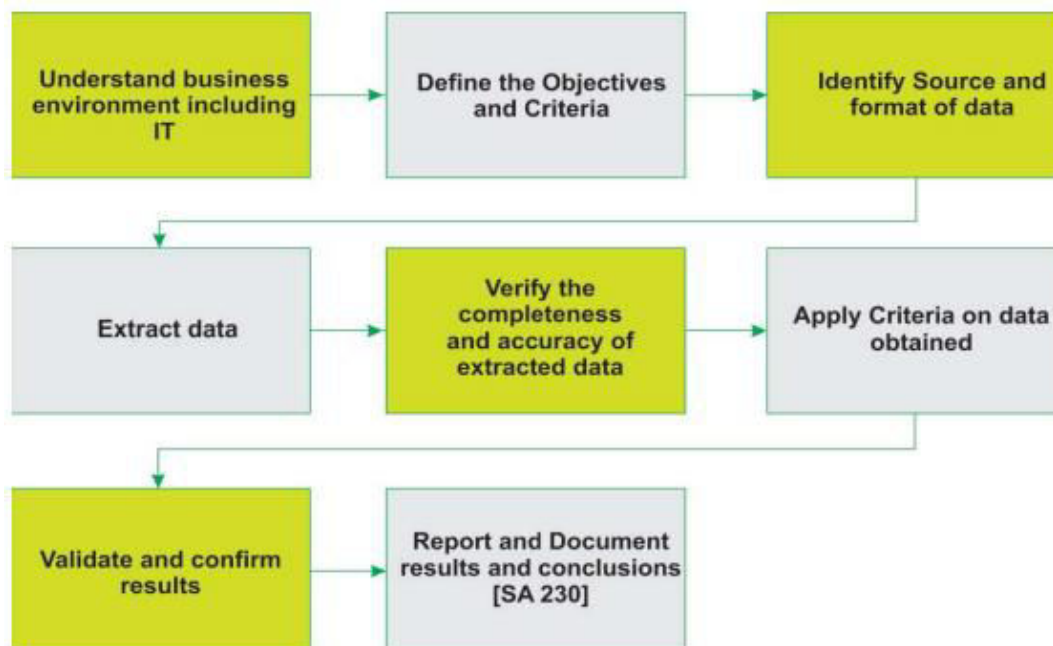
The combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information is called data analytics. While it is true that companies can benefit immensely from the use of data analytics in terms of increased profitability, better customer service, gaining competitive advantage, more efficient operations, etc., even auditors can make use of similar tools and techniques in the audit process and obtain good results. The tools and techniques that auditors use in applying the principles of data analytics are known as Computer Assisted Auditing Techniques or CAATs in short.

Data analytics can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialised audit tools viz., IDEA and ACL to perform the following:

- Check completeness of data and population that is used in either test of controls or substantive audit tests.
- Selection of audit samples – random sampling, systematic sampling.
- Re-computation of balances – reconstruction of trial balance from transaction data.
- Reperformance of mathematical calculations – depreciation, bank interest calculation.
- Analysis of journal entries as required by SA 240.
- Fraud investigation.
- Evaluating impact of control deficiencies.

There are several steps that should be followed to achieve success with CAATs and any of the supporting tools.

A suggested approach to benefit from the use of CAATs is given in the illustration below:





2 (ii)

**Techniques available as Substantive Analytical Procedures :** The design of a substantive analytical procedure is limited only by the availability of reliable data and the experience and creativity of the audit team. Substantive analytical procedures generally take one of the following forms:

**Trend analysis** — A commonly used technique is the comparison of current data with the prior period balance or with a trend in two or more prior period balances. We evaluate whether the current balance of an account moves in line with the trend established with previous balances for that account, or based on an understanding of factors that may cause the account to change.

**Ratio analysis** — Ratio analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts. An individual balance sheet account is difficult to predict on its own, but its relationship to another account is often more predictable (e.g., the trade receivables balance related to sales). Ratios can also be compared over time or to the ratios of separate entities within the group, or with the ratios of other companies in the same industry.

**Reasonableness tests** — Unlike trend analysis, this analytical procedure does not rely on events of prior periods, but upon non-financial data for the audit period under consideration (e.g., occupancy rates to estimate rental income or interest rates to estimate interest

income or expense). These tests are generally more applicable to income statement accounts and certain accrual or prepayment accounts.

**Structural modelling** — A modelling tool constructs a statistical model from financial and/or non-financial data of prior accounting periods to predict current account balances (e.g., linear regression).

2 (iii)

### **Powers of C&AG**

The C&AG Act gives the following powers to the C&AG in connection with the performance of his duties-

- (a) To inspect any office of accounts under the control of the Union or a State Government including office responsible for the creation of the initial or subsidiary accounts.
- (b) To require that any accounts, books, papers and other documents which deal with or are otherwise relevant to the transactions under audit, be sent to specified places.
- (c) To put such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which is his duty to prepare.

In carrying out the audit, the C&AG has the power to dispense with any part of detailed audit of any accounts or class of transactions and to apply such limited checks in relation to such accounts or transactions as he may determine.

3 a.

## 12.5 Mode of Creation of Security

Depending on the nature of the item concerned, creation of security may take the form of a mortgage, pledge, hypothecation, assignment, set-off, or lien.

**(i) Mortgage:** Mortgage are of several kinds but the most important are the Registered Mortgage and the Equitable Mortgage.

- **A Registered Mortgage** can be affected by a registered instrument called the 'Mortgage Deed' signed by the mortgagor. It registers the property to the mortgagee as a security.
- **Equitable mortgage**, on the other hand, is effected by a mere delivery of title deeds or other documents of title with intent to create security thereof.

**(ii) Pledge:** A pledge thus involves bailment or delivery of goods by the borrower to the lending bank with the intention of creating a charge thereon as security for the advance. The legal ownership of the goods remains with the pledger while the lending banker gets certain defined interests in the goods. The pledge of goods constitutes a specific (or fixed) charge.

**(iii) Hypothecation:** The hypothecation is the creation of an equitable charge (i.e., a charge created not by an express enactment but by equity and reason), which is created in favour of the lending bank by execution of hypothecation agreement in respect of the moveable securities belonging to the borrower.

Neither ownership nor possession is transferred to the bank. However, the borrower holds the physical possession of the goods as an agent/trustee of the bank.

The borrower periodically submits statements regarding quantity and value of hypothecated assets (stocks, debtors, etc.) to the lending banker on the basis of which the drawing power of the borrower is fixed.

**(iv) Assignment:** Assignment represents a transfer of an existing or future debt, right or property belonging to a person in favour of another person. Only actionable claims (i.e., claim to any debt other than a debt secured by a mortgage of immovable property or by hypothecation or pledge of moveable property) such as book debts and life insurance policies are accepted by banks as security by way of assignment.

An assignment gives the assignee absolute right over the moneys/debts assigned to him.

**(v) Set-off:** Set-off is a statutory right of a creditor to adjust, wholly or partly, the debit balance in the debtor's account against any credit balance lying in another account of the debtor. The right of set-off enables a bank to combine two accounts (a deposit account and a loan account) of the same person provided both the accounts are in the same name and in the same right (i.e., the capacity of the account holder in both the accounts should be the same).

For the purpose of set-off, all the branches of a bank are treated as one single entity. The right of set-off can be exercised in respect of time-barred debts also.

**(vi) Lien:** Lien is creation of a legal charge with consent of the owner, which gives lender a legal right to seize and dispose / liquidate the asset under lien.



3 b.

**1. Examination of overdue debts** - Overdue debts for a period from 6 months to 5 years and more than 5 years will have to be classified and shall have to be reported by an auditor. Overdue debts have far reaching consequences on the working of a credit society. It affects its working capital position. A further analysis of these overdue debts from the viewpoint of chances of recovery will have to be made, and they will have to be classified as good or bad. The auditor will have to ascertain whether proper provisions for doubtful debts are made and whether the same is satisfactory.

**2. Overdue Interest** - Overdue interest should be excluded from interest outstanding and accrued due while calculating profit. Overdue interest is interest accrued or accruing in accounts, the amount of which the principal is overdue. In practice an overdue interest reserve is created and the credit of overdue interest credited to interest account is reduced.

**3. Certification of Bad Debts** - A peculiar feature regarding the writing off of the bad debts as per Maharashtra State Co-operative Rules, 1961, is very interesting to

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note. As per the said rules, bad debts can be written off only when they are certified as bad by the auditor. Bad debts and irrecoverable losses before being written off against Bad Debts Funds, Reserve Fund etc. should be certified as bad debts or irrecoverable losses by the auditor where the law so requires. Where no such requirement exists, the managing committee of the society must authorise the write-off.

**4. Valuation of Assets and Liabilities** - Regarding valuation of assets there are no specific provisions or instructions under the Act and Rules and as such due regard shall be had to the general principles of accounting and auditing conventions and standards adopted. The auditor will have to ascertain existence, ownership and valuation of assets. Fixed assets should be valued at cost less adequate provision for depreciation. The incidental expenses incurred in the acquisition and the installation expenses of assets should be properly capitalised. If the difference in the original cost of acquisition and the present market price is of far reaching significance, a note regarding the present market value may be appended; so as to have a proper disclosure in the light of present inflatory conditions. The current assets be valued at cost or market price, whichever is lower. Regarding the liabilities, the auditor should see that all the known liabilities are brought into the account, and the contingent liabilities are stated by way of a note.

**5. Adherence to Co-operative Principles** - The auditor will have to ascertain in general, how far the objects, for which the co-operative organisation is set up, have been achieved in the course of its working. The assessment is not necessarily in terms of profits, but in terms of extending of benefits to members who have formed the society. Considered from the viewpoint of social benefits it may be looked into that how far the sales could be affected at lower prices. For the achievement of these activities, cost accounting methods, store control methods, techniques of standard costing, budgetary control etc. should be adopted. However, these modern techniques are mostly not in application and as such in practice a wide gap is found in the goals to be achieved and the actual achievements. While auditing the expenses, the auditor should see that they are economically incurred and there is no wastage of funds. Middlemen commissions are, as far as possible, avoided and the purchases are made by the committee members directly from the wholesalers. The principles of propriety audit should be followed for the purpose.

**6. Observations of the Provisions of the Act and Rules** - An auditor of a co-operative society is required to point out the infringement with the provisions of Co-operative Societies Act and Rules and bye-laws. The financial implications of such infringements should be properly assessed by the auditor and they should be reported. Some of the State Acts contain restrictions on payment of dividends, which should be noted by the auditor.



### **7. Verification of Members' Register and examination of their pass books**

- Examination of entries in members pass books regarding the loan given and its repayments, and confirmation of loan balances in person is very much important in a co-operative organisation to assure that the entries in the books of accounts are free from manipulation. Specifically in the rural and agricultural credit societies, members are not literate and as such this is a good safeguard on their part. Of course this checking will be resorted to on a test basis, which is a matter of judgement of the auditor.

**8. Special report to the Registrar** - During the course of audit, if the auditor notices that there are some serious irregularities in the working of the society he may report these special matters to the Registrar, drawing his specific attention to the points. The Registrar on receipt of such a special report may take necessary action against the society. In the following cases, for instance, a special report may become necessary:

- (i) Personal profiteering by members of managing committee in transactions of the society, which are ultimately detrimental to the interest of the society.
- (ii) Detection of fraud relating to expenses, purchases, property and stores of the society.
- (iii) Specific examples of mis-management. Decisions of management against co-operative principles.
- (iv) In the case of urban co-operative banks, disproportionate advances to vested interest groups, such as relatives of management, and deliberate negligence about the recovery thereof. Cases of reckless advancing, where the management is negligent about taking adequate security and proper safeguards for judging the credit worthiness of the party.

**9. Audit classification of society** - After a judgement of an overall performance of the society, the auditor has to award a class to the society. This judgement is to be based on the criteria specified by the Registrar. It may be noted here that if the management of the society is not satisfied about the award of audit class, it can make an appeal to the Registrar, and the Registrar may direct to review the audit classification. The auditor should be very careful, while making a decision about the class of society.

**10. Discussion of draft audit report with managing committee** - On conclusion of the audit, the auditor should ask the Secretary of the society to convene the managing committee meeting to discuss the audit draft report. The audit report should never be finalised without discussion with the managing committee. Minor irregularities may be got settled and rectified. Matters of policy should be discussed in detail.

4 a.

**The Special Steps Involved in the Audit of an Educational Institution are the following:**

- (i) Examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed thereunder.
- (ii) Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, specially the decisions as regards the operation of bank accounts and sanctioning of expenditure.

- (iii) Check names entered in the Students' Fee Register for each month or term, with the respective class registers, showing names of students on rolls and test amount of fees charged; and verify that there operates a system of internal check which ensures that demands against the students are properly raised.
- (iv) Check fees received by comparing counterfoils of receipts granted with entries in the cash book and tracing the collections in the Fee Register to confirm that the revenue from this source has been duly accounted for.
- (v) Total up the various columns of the Fees Register for each month or term to ascertain that fees paid in advance have been carried forward and the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
- (vi) Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund, unless the Managing Committee has taken a decision to the contrary.
- (vii) See that free studentship and concessions have been granted by a person authorised to do so, having regard to the prescribed Rules.
- (viii) Confirm that fines for late payment or absence, etc., have either been collected or remitted under proper authority.
- (ix) Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
- (x) Verify rental income from landed property with the rent rolls, etc.
- (xi) Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.
- (xii) Verify any Government or local authority grant with the relevant papers of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons and compliance thereof.
- (xiii) Report any old heavy arrears on account of fees, dormitory rents, etc, to the Managing Committee.
- (xiv) Confirm that caution money and other deposits paid by students on admission have been shown as liability in the balance sheet and not transferred to revenue.
- (xv) See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated and invested along with the corpus.
- (xvi) Verify that the Provident Fund money of the staff has been invested in appropriate securities.
- (xvii) Vouch donations, if any, with the list published with the annual report. If some donations were meant for any specific purpose, see that the money was utilised for the purpose.

- (xviii) Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
- (xix) Vouch in the usual manner all establishment expenses and enquire into any unduly heavy expenditure under any head.
- (xx) See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.
- (xxi) Ascertain that the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing and other equipment is efficient and all bills are duly authorised and passed before payment.
- (xxii) Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. These should be checked by reference to Inventory Register and values applied to various items should be test checked.
- (xxiii) Confirm that the refund of taxes deducted from the income from investment (interest on securities, etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income-tax.
- (xxiv) Verify the annual statements of accounts and while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of Staff, etc.

4 b.

Analyzing and discussing cash flow, profit and other relevant forecasts with management.

Analyzing and discussing the entity's latest available interim financial statements.

Reading the terms of debentures and loan agreements and determining whether any have been breached.

Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.

Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.

Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.

Evaluating the entity's plans to deal with unfilled customer orders.

Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

Confirming the existence, terms and adequacy of borrowing facilities.

Obtaining and reviewing reports of regulatory actions.

Determining the adequacy of support for any planned disposals of assets.



5 a.

**In the case of a nationalised bank, the auditor is required to make a report to the Central Government in which he has to state the following:**

- (i) whether, in his opinion, the balance sheet is a full and fair balance sheet containing all the necessary particulars and is properly drawn up so as to exhibit a true and fair view of the affairs of the bank, and in case he had called for any explanation or information, whether it has been given and whether it is satisfactory;
- (ii) whether or not the transactions of the bank, which have come to his notice, have been within the powers of that bank;
- (iii) whether or not the returns received from the offices and branches of the bank have been found adequate for the purpose of his audit;
- (iv) whether the profit and loss account shows a true balance of profit or loss for the period covered by such account; and
- (v) any other matter which he considers should be brought to the notice of the Central Government.

The report of auditors of State Bank of India is also to be made to the Central Government and is almost identical to the auditor's report in the case of a nationalised bank.

5 b.

**Audit documentation:** SA 230 on "Audit Documentation", audit documentation refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. (terms such as "working papers" or "work papers" are also sometimes used.)

### **1.3 Form, Content and Extent of Audit Documentation**

The form, content and extent of audit documentation depend on factors such as:

1. The size and complexity of the entity.
2. The nature of the audit procedures to be performed.
3. The identified risks of material misstatement.
4. The significance of the audit evidence obtained.
5. The nature and extent of exceptions identified.
6. The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
7. The audit methodology and tools used.

5 c.



## 9. AUDITOR AND THE SUBSEQUENT EVENTS

### Meaning of Subsequent Events

Events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.



### Objectives

The objectives of the auditor are to:

- (a) Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements; and
- (b) Respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.



6 a.

The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

SQC 1 "Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services", requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.

The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process, if they are administrative in nature.

Examples of such changes include:

- ◆ Deleting or discarding superseded documentation.
- ◆ Sorting, collating and cross referencing working papers.
- ◆ Signing off on completion checklists relating to the file assembly process.
- ◆ Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report.

After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.

SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

6 b.

## 5.2 Objective of the Auditor- To Express Clearly an Appropriately modified Opinion

As per Standard on Auditing (SA) 705 "Modifications To The Opinion In The Independent Auditor's Report", the objective of the auditor is **to express clearly an appropriately modified opinion** on the financial statements that is necessary when:

- (a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

## 5.3 Types of Modified Opinions

There are three types of modified opinions, namely-

1. A qualified opinion
2. An adverse opinion
3. A disclaimer of opinion



Qualified Opinion	Adverse Opinion	Disclaimer of Opinion
The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements are material, but not pervasive.	The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive.	The auditor shall disclaim an opinion when he is unable to obtain sufficient appropriate audit evidence and he concludes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.

### Qualified Opinion

The auditor shall express a qualified opinion when:

- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

### Adverse Opinion

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

**Disclaimer of Opinion** The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

6 c.



## 5. EXTERNAL CONFIRMATION

External confirmation may be defined as an audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

## 5.1 Definition of other Important Terms

**Positive confirmation request** – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

**Negative confirmation request** – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

**Non-response** – A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.

**Exception** – A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

The exception need to be assessed to the entire population after analyzing the reason for difference.

7 a.

The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, the following are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures:

- (i) Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity;
- (ii) Comparability of the information available. For example, broad industry data may need to be supplemented to be comparable to that of an entity that produces and sells specialised products;
- (iii) Nature and relevance of the information available. For example, whether budgets have been established as results to be expected rather than as goals to be achieved; and
- (iv) Controls over the preparation of the information that are designed to ensure its completeness, accuracy and validity. For example, controls over the preparation, review and maintenance of budgets.

The auditor may consider testing the operating effectiveness of controls, if any, over the entity's preparation of information used by the auditor in performing substantive analytical procedures in response to assessed risks. When such controls are effective, the auditor generally has greater confidence in the reliability of the information and, therefore, in the results of analytical procedures. The operating effectiveness of controls over non-financial information may often be tested in conjunction with other tests of controls. For example, in establishing controls over the processing of sales invoices, an entity may include controls over the recording of unit sales. In these circumstances, the auditor may test the operating effectiveness of controls over the recording of unit sales in conjunction with tests of the operating effectiveness of controls over the processing

of sales invoices. Alternatively, the auditor may consider whether the information was subjected to audit testing. SA 500 (Revised) establishes requirements and provides guidance in determining the audit procedures to be performed on the information to be used for substantive analytical procedures.

7 b.

**Receipt of Donations:**

- (i) **Internal Control System:** Existence of internal control system particularly with reference to division of responsibilities in respect of authorised collection of donations, custody of receipt books and safe custody of money.
- (ii) **Custody of Receipt Books:** Existence of system regarding issue of receipt books, whether unused receipt books are returned and the same are verified physically including checking of number of receipt books and sequence of numbering therein.
- (iii) **Receipt of Cheques:** Receipt Book should have carbon copy for duplicate receipt and signed by a responsible official. All details relating to date of cheque, bank's name, date, amount, etc. should be clearly stated.
- (iv) **Bank Reconciliation:** Reconciliation of bank statements with reference to all cash deposits not only with reference to date and amount but also with reference to receipt book.
- (v) **Cash Receipts:** Register of cash donations to be vouched more extensively. If addresses are available of donors who had given cash, the same may be cross-checked by asking entity to post thank you letters mentioning amount, date and receipt number.
- (vi) **Foreign Contributions,** if any, to receive special attention to compliance with applicable laws and regulations.

**Remittance of Donations to Different NGOs:**

- (i) **Mode of Sending Remittance:** All remittances are through account payee cheques. Remittances through Demand Draft would also need to be scrutinised thoroughly with reference to recipient.
- (ii) **Confirming Receipt of Remittance:** All remittances are supported by receipts and acknowledgements.
- (iii) **Identity:** Recipient NGO is a genuine entity. Verify address, 80G Registration Number, etc.
- (iv) **Direct Confirmation Procedure:** Send confirmation letters to entities to whom donations have been paid.
- (v) **Donation Utilisation:** Utilisation of donations for providing relief to Tsunami victims and not for any other purpose.
- (vi) **System of NGOs' Selection:** System for selecting NGO to whom donations have been sent.



1 A.

### C. Role Based Access Control (RBAC) in ERP System

In computer systems security, role-based access control is an approach to restricting system access to authorized users. It is used by most enterprises and can implement mandatory access control or discretionary access control. RBAC is sometimes referred to as Role-Based Security. **Role-Based-Access-Control (RBAC)** is a policy neutral access control mechanism defined around roles and privileges. The components of RBAC such as role-permissions, user-role and role-role relationships make it simple to perform user assignments. RBAC can be used to facilitate administration of security in large organizations with hundreds of users and thousands of permissions.

Roles for staff are defined in organization and access to the system can be given according to the role assigned. E.g. a junior accountant in accounting department is assigned a role of recording basic accounting transactions, an executive in human resource department is assigned a role of gathering data for salary calculations on monthly basis, etc.

1 B.

**XBRL Tagging** is the process by which any financial data is tagged with the most appropriate element in an accounting taxonomy (a dictionary of accounting terms) that best represents the data in addition to tags that facilitate identification/classification (such as enterprise, reporting period, reporting currency, unit of measurement etc.). Since all XBRL reports use the same taxonomy, numbers associated with the same element are comparable irrespective of how they are described by those releasing the financial statements.

Comprehensive definitions and accurate data tags allow preparation, validation, publication, exchange, consumption; and analysis of business information of all kinds. Information in reports prepared using the XBRL standard is interchangeable between different information systems in entirely different organizations. This allows for the exchange of business information across a reporting chain. People that want to report information, share information, publish performance information and allow straight through information processing all rely on XBRL.

In addition to allowing the exchange of summary business reports, like financial statements, and risk and performance reports, XBRL has the capability to allow the tagging of transactions that can themselves be aggregated into XBRL reports. These transactions can be used for independent exchange and analysis of

significant quantities of supporting data and can be the key to transforming reporting supply chains.

2 A.

**Business Intelligence (BI)** is a technology-driven process for analyzing data and presenting actionable information to help corporate executives, business managers and other end users make more informed business decisions. BI encompasses a wide variety of tools, applications and methodologies that enable organizations to collect data from internal systems and external sources, prepare it for analysis, develop and run queries against the data, and create reports, dashboards and data visualizations to make the analytical results available to corporate decision makers as well as operational workers.

The potential benefits of business intelligence programs include accelerating and improving decision making; optimizing internal business processes; increasing operational efficiency; driving new revenues; and gaining competitive advantages over business rivals. BI systems can also help companies identify market trends and spot business problems that need to be addressed.

2 B.

**Customer Relationship Management (CRM):** CRM is a term applied to processes implemented by a company to handle its contact with its customers. CRM software is used to support these processes, storing information on current and prospective customers. Information in the system can be accessed and entered by employees in different departments, such as sales, marketing, customer service, training, professional development, performance management, human resource development, and compensation. Details on any customer contacts can also be stored in the system. The rationale behind this approach is to improve services provided directly to customers and to use the information in the system for targeted marketing.

3 A.

**Data Warehouse:** Usually this is a module that can be accessed by an organizations customers, suppliers and employees. Data warehouse is a repository of an organization's electronically stored data. Data warehouses are designed to facilitate reporting and analysis. This classic definition of the data warehouse focuses on data storage. However, the means to retrieve and analyze data, to extract, transform and load data, and to manage the data dictionary are also considered essential components of a data warehousing system. An expanded definition for data warehousing includes business intelligence tools, tools to extract, transform, and load data into the repository, and tools to manage and retrieve metadata. In contrast to data warehouses are operational systems which perform day-to-day transaction processing. The process of transforming data into information and making it available to the user in a timely enough manner to make a difference is known as data warehousing.



3 B.

A **Report** simply means presentation of information in proper and meaningful way. We have already discussed about system earlier. So, basically reporting system is a system of regular reporting on the pre-decided aspects.

The basic purpose of any Financial and Accounting system is to give right information at right point of time to right people for right decision making. Two basic reports, i.e. **Balance Sheet** and **Profit & Loss Account** are used for basic analysis of financial position and financial performance. But only these two reports are not sufficient for all types of decision making. Hence, we need a proper reporting system to serve the purpose.

Companies generally have a finance function which monitor the financial position on a monthly basis. Key reports are analyzed by management to determine if appropriate financial decisions are made at the right time. For example comparing actual revenue by region and comparing to budgets to ensure forecasts are met. These periodic reviews also ensure financial hygiene is kept and no mis-statements creep in, in the preparation of year-end financial reports.

Companies especially the large listed corporations publish their annual reports to public at large providing many insights as to their operations, their future plans and their social responsibilities too. MD&A (Management Discussion & Analysis) section in these annual reports discusses how management have prepared the financial position, their interpretation of the company's performance, the industry in which they operate and provide critical guidance on where the company is heading.

4.

Steps to understand the competitive landscape

- (i) **Identify the competitor:** The first step to understand the competitive landscape is to identify the competitors in the firm's industry and have actual data about their respective market share.
- (ii) **Understand the competitors:** Once the competitors have been identified, the strategist can use market research report, internet, newspapers, social media, industry reports, and various other sources to understand the products and services offered by them in different markets.
- (iii) **Determine the strengths of the competitors:** What are the strength of the competitors? What do they do well? Do they offer great products? Do they utilize marketing in a way that comparatively reaches out to more consumers. Why do customers give them their business?
- (iv) **Determine the weaknesses of the competitors:** Weaknesses (and strengths) can be identified by going through consumer reports and reviews appearing in various media. After all, consumers are often willing to give their opinions, especially when the products or services are either great or very poor.
- (v) **Put all of the information together:** At this stage, the strategist should put together all information about competitors and draw inference about what they are not offering and what the firm can do to fill in the gaps. The strategist can also know the areas which need to be strengthened by the firm.



5 A.

Experience curve is similar to learning curve which explains the efficiency gained by workers through repetitive productive work. Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. The implication is that larger firms in an industry would tend to have lower unit costs as compared to those of smaller organizations, thereby gaining a competitive cost advantage. Experience curve results from a variety of factors such as learning effects, economies of scale, product redesign and technological improvements in production.

The concept of experience curve is relevant for a number of areas in strategic management. For instance, experience curve is considered a barrier for new firms contemplating entry in an industry. It is also used to build market share and discourage competition.

5 B.

**Incorrect:** SWOT analysis stands for the analysis of strengths, weaknesses opportunities, and threats. It is not used for ranking of organizations. It is a tool for organizational and environmental appraisal necessary for formulating effective strategies.

5 C.

#### **How to build Core Competencies (CC)?**

There are two tools that help the firm to identify and build its core competencies.

#### **1. Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies.**

Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

- i. Valuable:** Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful require placing the right people in the right jobs. Human capital is important in creating value for customers.
- ii. Rare:** Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.
- iii. Costly to imitate:** Costly to imitate means such capabilities that competing firms are unable to develop easily. *For example:* Intel has enjoyed a first-mover advantage more than once because of its rare fast R&D cycle time



capability that brought SRAM and DRAM integrated circuit technology, and brought microprocessors to market well ahead of the competitor. The product could be imitated in due course of time, but it was much more difficult to imitate the R&D cycle time capability.

- iv. **Non-substitutable:** Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

*For Example:* For years, firms tried to imitate Tata's low-cost strategy but most have been unable to duplicate Tata's success. They did not realize that Tata has a unique culture and attracts some of the top talent in the industry. The culture and excellent human capital worked together in implementing Tata's strategy and are the basis for its competitive advantage.



The strategic value of capabilities increases as they become more difficult to substitute.

*For example:* Competitors are deeply aware about Apple's operating system's (iOS) successful model. However, to date, no competitor has been able to imitate Apple's capabilities. These are also protected through copyrights.



To sum up, we can say that only when a capability is valuable, rare, costly to imitate, and non-substitutable, it is a core competence and a source of competitive advantage. Over a time, core competencies must be supported. Core competencies are a source of competitive advantage only when they allow the firm to create value by exploiting opportunities in its external environment.

Failing to identify core competencies is a kind of opportunity loss for a company. That failure is due to the inability of management to conceive of a company as other than a mere collection of discrete businesses.