

SAP 2(ii) Inter old Costing & FM Answer Key

1 a.

Contract Account for the year ended 31st March, 20X8

	(₹'000)		(₹' 000)
To Material issued to site	5,000	By Material at site	1,800
To Direct wages 3,800		By Material returned	100
Add: Outstanding wages <u>110</u>	3,910	By Work-in-progress:	
To Plant hire	700	- Value of work certified	10,000
To Site office cost	270	- Work uncertified	230
To Direct expenses	500		
To Depreciation (special plant)	300		
To Notional profit c/d	1,450		
	12,130		12,130

1 b.

<i>Dr.</i>	Creditors A/c		<i>Cr.</i>
	(₹)		(₹)
To Cash & Bank (1)	89,200	By Balance b/d	16,400
To Balance c/d	<u>19,200</u>	By Purchases (Balancing figure)	<u>92,000</u>
	<u>1,08,400</u>		<u>1,08,400</u>
<i>Dr.</i>	Work-in-progress A/c		<i>Cr.</i>
	(₹)		(₹)
To Balance b/d	9,200	By Finished stock	1,51,000
To Raw-materials (Balancing figure)	53,000	By Balance c/d :	
To Wages Control (3) (7,000 hrs. × ₹ 10)	70,000	Material (2) : ₹ 5,000	
To Overheads Control (4) (7,000 hrs. × ₹ 4)	28,000	Labour (2) : ₹ 3,000 (300 hrs. × ₹10)	
		Overheads (2) : <u>₹ 1,200</u>	9,200
	<u>1,60,200</u>	(300 hrs. × ₹4)	
			<u>1,60,200</u>

Dr.	Raw-materials A/c		Cr.
	(₹)		(₹)
To Balance b/d	32,000	By Work-in-progress	53,000
To Purchases	92,000	(As above)	
(As above)		By Balance c/d	71,000
	<u>1,24,000</u>		<u>1,24,000</u>

Dr.	Finished Goods A/c		Cr.
	(₹)		(₹)
To Balance b/d	24,000	By Cost of sales	1,45,000
To W.I.P.	1,51,000	(Balancing figure)	
(As above)		By Balance c/d	30,000
	<u>1,75,000</u>		<u>1,75,000</u>

Dr.	Manufacturing Overheads A/c		Cr.
	(₹)		(₹)
To Sundries	29,600	By W.I.P. (7000 hrs. × ₹ 4)	28,000
		By Under-absorbed Overheads A/c	1,600
	<u>29,600</u>		<u>29,600</u>

2 a.

(i)

EPS Public School
Statement showing the expenses of operating a single bus and
the fleet of 25 buses for a year

Particulars	Per bus per annum (₹)	Fleet of 25 buses per annum (₹)
<i>Running costs : (A)</i>		
Diesel (Refer to working note 1)	56,832	14,20,800
<i>Repairs & maintenance costs: (B)</i>	16,400	4,10,000
<i>Fixed charges:</i>		
Driver's salary (₹ 5,000 × 12 months)	60,000	15,00,000
Cleaners salary (₹3,000 × 1/5 th × 12 months)	7,200	1,80,000
Licence fee, taxes etc.	2,300	57,500
Insurance	15,600	3,90,000
Depreciation	93,750	23,43,750
Total fixed charges: (C)	1,78,850	44,71,250
Total expenses: (A+B+C)	2,52,082	63,02,050

(ii) **Average cost per student per month in respect of students coming from a distance of:**

(a) 4 km. from the school {₹ 2,52,082 / (354 students × 12 months)} (Refer to Working Note 2)	₹ 59.34
(b) 8 km. from the school (₹ 59.34 × 2)	₹ 118.68
(c) 16 km. from the school (₹ 59.34 × 4)	₹ 237.36

Working Notes:**1. Calculation of diesel cost per bus:**

No. of trips made by a bus each day	4
Distance travelled in one trip both ways (16 km. × 2 trips)	32 km.
Distance traveled per day by a bus (32 km. × 4 shifts)	128 km.
Distance traveled during a month (128 km. × 24 days)	3,072 km.
Distance traveled per year (3,072 km. × 10 months)	30,720 km.
No. of litres of diesel required per bus per year (30,720 km. ÷ 10 km.)	3,072 litres
Cost of diesel per bus per year (3,072 litres × ₹ 18.50)	₹ 56,832

2. Calculation of number of students per bus:

Bus capacity of 2 trips (60 students × 2 trips)	120 students
1/4 th fare students (15% × 120 students)	18 students
1/2 fare 30% students (equivalent to 1/4 th fare students)	72 students
Full fare 55% students (equivalent to 1/4 th fare students)	264 students
Total 1/4 th fare students	354 students

2 b.

Solution:

Budgeted Production 30,000 hours ÷ 6 hours per unit = 5,000 units

Budgeted Fixed Overhead Rate = ₹ 4,50,000 ÷ 5,000 units = ₹ 90 per unit Or

= ₹ 4,50,000 ÷ 30,000 hours = ₹ 15 per hour.

(i) Material Cost Variance = (Std. Qty. × Std. Price) – (Actual Qty. × Actual Price)

= (4,800 units × 10 kg. × ₹10) - ₹ 5,25,000

= ₹ 4,80,000 – ₹ 5,25,000

= ₹ 45,000 (A)

(ii) Labour Cost Variance = (Std. Hours × Std. Rate) – (Actual Hours × Actual rate)

= (4,800 units × 6 hours × ₹ 5.50) – ₹1,55,000

= ₹ 1,58,400 – ₹ 1,55,000

= ₹ 3,400 (F)

(iii) Fixed Overhead Cost Variance = (Budgeted Rate × Actual Qty) – Actual Overhead

= (₹ 90 × 4,800 units) – ₹ 4,70,000

= ₹ 38,000 (A)

OR

= (Budgeted Rate × Std. Hours) – Actual Overhead

= (₹ 15 × 4,800 units × 6 hours) – ₹ 4,70,000

= ₹ 38,000 (A)

(iv) Variable Overhead Cost Variance = (Std. Rate × Std. Hours) – Actual Overhead

= (4,800 units × 6 hours × ₹ 10) - ₹ 2,93,000

= ₹ 2,88,00 - ₹ 2,93,000

= ₹ 5,000 (A)

3 a.

Working Notes:

Input output ratio of material processed in Department X = 100 : 90

Particulars	Quantity (Kg)
Material input	9,00,000
Less: Loss of material in process @ 10% of 9,00,000 kgs	90,000
Output	8,10,000

Output of department X is product 'P₁' and 'P₂' in the ratio of 60 : 40.

$$\text{Output 'P}_1\text{' = } \frac{60 \times 8,10,000}{100} = 4,86,000 \text{ kgs.}$$

$$\text{Output 'P}_2\text{' = } \frac{40 \times 8,10,000}{100} = 3,24,000 \text{ kgs.}$$

Statement showing ratio of net sales

Product	P ₁	P ₂	Total
Quantity (kgs)	4,86,000	3,24,000	8,10,000
Selling price per kg (₹)	110.00	325.00	
Sales Value (₹ Lakhs)	534.60	1,053.00	1,587.60
Less: Selling Expenses	28.38	25.00	53.38
Net Sales	506.22	1,028.00	1,534.22
Ratio	33%	67%	100.00

Computation of Joint Costs

Particulars	Amount (₹Lakhs)
Raw Material input 9,00,000 kgs @ ₹ 95 per kg	855.00
Direct Materials	95.00
Direct Wages	80.00
Variable Overheads	100.00
Fixed Overheads	75.00
Total	1,205.00

(i) Statement showing apportionment of joint costs in the ratio of net sales

Particulars	Amount (₹ In lakhs)
Joint cost of P ₁ – 33% of ₹1,205 lakhs	397.65
Joint cost of P ₂ – 67% of ₹1,205 lakhs	807.35
Total	1,205.00

(ii) Statement showing profitability at split off point

Product	P ₁	P ₂	Total
Net Sales Value (₹ in lakhs) – [A]	506.22	1028.00	1534.22
Less: Joint costs (₹ in lakhs)	397.65	807.35	1205.00
Profit (₹ in lakhs) [A] – [B]	108.57	220.65	329.22

(iii) Statement of profitability of product 'YP₁'

Particulars		YP ₁
Sales Value (₹ in lakhs) [A]		629.55
Less: Cost of P ₁	397.65	807.35
Cost of Department Y	128.00	

Selling Expenses of Product 'YP1'	19.00	
Total Costs [B]		544.65
Profit (₹ in lakhs) [A] – [B]		147.90

Working Note: Computation of product 'YP1'

Quantity of product P₁ input used =- 4,86,000 kgs

Input output ratio of material processed in Department Y = 100 : 95

Particulars	Quantity (Kg)
Material input	4,86,000
Less: Loss of material in process @ 5% of 4,86,000	24,300
Output	4,61,700

Sales Value of YP₁ = 4,61,700 kgs @ ₹ 150 per kg = ₹692.55 lakhs

- (iv) Further processing of product P₁ and converting to product YP₁ is beneficial as the profit of the company increases by ₹39.33 lakhs.

Working Note:

Profit of Product 'YP ₁ '	₹147.90L
Profit of Product 'P ₁ '	₹108.57L
Increase in profit after further processing	₹ 39.33 L

3 b.

Production budget of Product Minimax and Heavyhigh (in units)

	April		May		June		Total	
	MM	HH	MM	HH	MM	HH	MM	HH
Sales	8,000	6,000	10,000	8,000	12,000	9,000	30,000	23,000
Add: Closing Stock (25% of next month's sale)	2,500	2,000	3,000	2,250	4,000	3,500	9,500	7,750
Less: Opening Stock	2,000*	1,500*	2,500	2,000	3,000	2,250	7,500	5,750
Production units	8,500	6,500	10,500	8,250	13,000	10,250	32,000	25,000

* Opening stock of April is the closing stock of March, which is as per company's policy 25% of next months sale.

Production Cost Budget

Element of cost	Rate (₹)		Amount (₹)	
	MM (32,000 units)	HH (25,000 units)	MM	HH
Direct Material	220	280	70,40,000	70,00,000

Direct Labour	130	120	41,60,000	30,00,000
Manufacturing Overhead				
(4,00,000/ 1,80,000 × 32,000)			71,111	
(5,00,000/ 1,20,000 × 25,000)				1,04,167
			1,12,71,111	1,01,04,167

4 a.

Computation of Cash inflow per annum (₹)

Net operating income per annum	68,000
Less: Tax @ 45%	<u>30,600</u>
Profit after tax	37,400
Add: Depreciation	72,000
(₹3,60,000 / 5 years)	
Cash inflow	<u>1,09,400</u>

The IRR of the investment can be found as follows:

$$NPV = -₹3,60,000 + ₹1,09,400 (PVA_{5,r}) = 0$$

$$\text{or } PVA_{5,r} (\text{Cumulative factor}) = \frac{₹ 3,60,000}{₹ 1,09,400} = 3.29$$

Computation of Internal Rate of Return

Discounting Rate	15%	16%
Cumulative factor	3.35	3.27
PV of Inflows	3,66,490	3,57,738
	(₹1,09,400×3.35)	(₹1,09,400×3.27)
Initial outlay (₹)	3,60,000	3,60,000
NPV (₹)	6,490	(2,262)

$$IRR = 15 + \left[\frac{6,490}{6,490 + 2,262} \right] = 15 + 0.74$$

$$= 15.74\%$$

4 b.

$$\begin{aligned} \text{Net worth} &= \text{Capital} + \text{Reserves and surplus} \\ &= 4,00,000 + 6,00,000 = ₹10,00,000 \end{aligned}$$

$$\frac{\text{Total Debt}}{\text{Networth}} = \frac{1}{2}$$

$$\therefore \text{Total debt} = ₹ 5,00,000$$

$$\begin{aligned} \text{Total Liability side} &= ₹ 4,00,000 + ₹ 6,00,000 + ₹ 5,00,000 \\ &= ₹ 15,00,000 \\ &= \text{Total Assets} \end{aligned}$$

$$\text{Total Assets Turnover} = \frac{\text{Sales}}{\text{Total assets}}$$

$$2 = \frac{\text{Sales}}{₹ 15,00,000}$$

$$\therefore \text{Sales} = ₹ 30,00,000$$

Gross Profit on Sales : 30% i.e. ₹ 9,00,000

$$\begin{aligned} \therefore \text{Cost of Goods Sold (COGS)} &= ₹ 30,00,000 - ₹ 9,00,000 \\ &= ₹ 21,00,000 \end{aligned}$$

$$\text{Inventory turnover} = \frac{\text{COGS}}{\text{Inventory}}$$

$$3 = \frac{₹ 21,00,000}{\text{Inventory}}$$

$$\therefore \text{Inventory} = ₹ 7,00,000$$

$$\text{Average collection period} = \frac{\text{Average debtors}}{\text{Sales / day}}$$

$$40 = \frac{\text{Debtors}}{₹ 30,00,000 / 360}$$

$$\therefore \text{Debtors} = ₹ 3,33,333.$$

$$\text{Acid test ratio} = \frac{\text{Current Assets - Stock (Quick Asset)}}{\text{Current liabilities}}$$

$$0.75 = \frac{\text{Current Assets} - ₹ 7,00,000}{₹ 5,00,000}$$

$$\therefore \text{Current Assets} = ₹ 10,75,000.$$

$$\text{Fixed Assets} = \text{Total Assets} - \text{Current Assets}$$

$$= ₹ 15,00,000 - ₹ 10,75,000 = ₹ 4,25,000$$

$$\text{Cash and Bank balance} = \text{Current Assets} - \text{Inventory} - \text{Debtors}$$

$$= ₹ 10,75,000 - ₹ 7,00,000 - ₹ 3,33,333 = ₹ 41,667.$$

Balance Sheet as on March 31, 2016

Liabilities	₹	Assets	₹
Equity Share Capital	4,00,000	Plant and Machinery and other	
Reserves & Surplus	6,00,000	Fixed Assets	4,25,000
Total Debt:		Current Assets:	
Current liabilities	5,00,000	Inventory	7,00,000
		Debtors	3,33,333
		Cash	41,667
	<u>15,00,000</u>		<u>15,00,000</u>

5 a.

Computation of level of earnings before interest and tax (EBIT)

In case alternative (i) is accepted, then the EPS of the firm would be:

$$\begin{aligned} \text{EPS}_{\text{Alternative (i)}} &= \frac{(\text{EBIT} - \text{Interest})(1 - \text{tax rate})}{\text{No. of equity shares}} \\ &= \frac{(\text{EBIT} - 0.12 \times ₹ 4,00,000)(1 - 0.35)}{60,000 \text{ shares}} \end{aligned}$$

In case the alternative (ii) is accepted, then the EPS of the firm would be

$$\text{EPS}_{\text{Alternative (ii)}} = \frac{(\text{EBIT} - 0.12 \times ₹ 4,00,000)(1 - 0.35) - (0.14 \times ₹ 2,00,000)}{40,000 \text{ shares}}$$

In order to determine the indifference level of EBIT, the EPS under the two alternative plans should be equated as follows:

$$\frac{(\text{EBIT} - 0.12 \times ₹ 4,00,000)(1 - 0.35)}{60,000 \text{ shares}} = \frac{(\text{EBIT} - 0.12 \times ₹ 4,00,000)(1 - 0.35) - (0.14 \times ₹ 2,00,000)}{40,000 \text{ shares}}$$

$$\text{Or } \frac{0.65 \text{ EBIT} - ₹ 31,200}{3} = \frac{0.65 \text{ EBIT} - ₹ 59,200}{2}$$

$$\text{Or } 1.30 \text{ EBIT} - ₹ 62,400 = 1.95 \text{ EBIT} - ₹ 1,77,600$$

$$\text{Or } (1.95 - 1.30) \text{ EBIT} = ₹ 1,77,600 - ₹ 62,400 = ₹ 1,15,200$$

$$\text{Or } \text{EBIT} = \frac{₹ 1,15,200}{0.65}$$

$$\text{Or } \text{EBIT} = ₹ 1,77,231$$

5 b.

Total Assets = ₹ 20 crores

Total Asset Turnover Ratio = 2.5

Hence, Total Sales = 20 × 2.5 = ₹ 50 crores

Computation of Profit after Tax (PAT)

	(₹ in crores)
Sales	50.00
Less: Variable Operating Cost @ 65%	<u>32.50</u>
Contribution	17.50
Less: Fixed Cost (other than Interest)	<u>4.00</u>
EBIT	13.50
Less: Interest on Debentures (15% × 10)	<u>1.50</u>
PBT	12.00
Less: Tax @ 30%	<u>3.60</u>
PAT	<u>8.40</u>

(i) Earnings per Share

$$\text{EPS} = \frac{8.40 \text{ crores}}{\text{Number of Equity Shares}} = \frac{8.40 \text{ crores}}{50,00,000} = ₹ 16.80$$

It indicates the amount the company earns per share. Investors use this as a guide while valuing the share and making investment decisions. It is also a indicator used in comparing firms within an industry or industry segment.

(ii) Operating Leverage

$$\text{Operating Leverage} = \frac{\text{Contribution}}{\text{EBIT}} = \frac{17.50}{13.50} = 1.296$$

It indicates the choice of technology and fixed cost in cost structure. It is level specific. When firm operates beyond operating break-even level, then operating leverage is low. It indicates sensitivity of earnings before interest and tax (EBIT) to change in sales at a particular level.

(iii) Financial Leverage

$$\text{Financial Leverage} = \frac{\text{EBIT}}{\text{PBT}} = \frac{13.50}{12.00} = 1.125$$

The financial leverage is very comfortable since the debt service obligation is small vis-à-vis EBIT.

(iv) Combined Leverage

$$\begin{aligned} \text{Combined Leverage} &= \frac{\text{Contribution}}{\text{EBIT}} \times \frac{\text{EBIT}}{\text{PBT}} \\ \text{Or,} &= \text{Operating Leverage} \times \text{Financial Leverage} \\ &= 1.296 \times 1.125 = 1.458 \end{aligned}$$

The combined leverage studies the choice of fixed cost in cost structure and choice of debt in capital structure. It studies how sensitive the change in EPS is vis-à-vis change in sales. The leverages – operating, financial and combined are measures of risk.

1.

Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to the a number of conditions which are prescribed under *Companies (Prospectus and Allotment of Securities) Rules, 2014*. In relation to the case given, the conditions applicable under the above Rules are as under:

- (a) The payment of such commission shall be authorized in the company's articles of association;
- (b) The commission may be paid out of proceeds of the issue or the profit of the company or both;
- (c) The rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent (2.5 %) of the price at which the debentures are issued, or as specified in the company's articles, whichever is less;

Thus, the Underwriting commission is limited to 5% of issue price in case of shares and 2.5% in case of debentures. The rates of commission given above are maximum rates.

In view of the above, the decision of Unique Builders Ltd. to pay underwriting commission exceeding 2% as prescribed in the Articles is invalid.

The company may pay the underwriting commission in the form of flats as both the Companies Act and the Rules do not impose any restriction on the mode of payment though the source has been restricted to either the proceeds of the issue or profits of the company.

2.

18.3 Specimen of Chairman's Speech

Chairman's Speech at Annual General Meeting 2011

-----Limited

Annual General Meeting

-----, 2011

Speech of the Chairman

Mr.-----

My dear shareholders, ladies and gentlemen: I am very pleased to extend a warm welcome to each of you to the 95th Annual General Meeting of our company. I trust all of you are pleased with the results for the year ended March, 2011 and our recommendation for a dividend at the rate of ₹ 50 per share - which will be the highest dividend ever declared in the 95-year life of our company.

Those of you who have seen our accounts for the year 2010-2011 and have read our Directors' Report will know that this level of dividend distribution is well justified by the financial results of your company. The reasons and circumstances responsible for these results have been discussed in the Directors' Report. Instead, considering the fact that this is our 95th Annual General Meeting, it may be appropriate to reflect upon the nature and performance of your company in an historical perspective.

Today, just before this AGM, we presented the film We Are -----Co. providing different domestic products, which was seen by many of you. That film, in 75 minutes, tells the story of how the company we own has gone about its business over the last 95 years. It tells this story in the words of people who know the company well, either because they work in the company or because they deal with the company or because they use the company's products. I hope that those of you who have seen this film have got a better understanding of what your company is all about and how it has produced the results that you have got so far.

Those of you who attended the AGM last year may remember that I spoke about the seven elements in the DNA of our products. I hope you have been able to see today these seven elements in the film, We Are ----- Co. What are these seven principles?

1. Follow the Golden Rule. "Do unto others as you would that they do unto you".
2. Respect both Ends and Means. The results have to be achieved and the means have to be right.
3. Seek the Best. From the choice of materials and machines to the selection and promotion of our people, we choose to work with the best we can get or create.
4. Hot Focus. Today, as a result of following this policy of Hot Focus over many decades, we know as much or more than any other manufacturer in the world about pressure cookers and cookware.
5. Prudence. We don't "Bet the Company" on anything - no matter how exciting the prospect.
6. Courage and Resolution. Where an important principle is involved, be bold, brave and resolute.
7. Do Your Best and Leave the Rest to God. Apart from anything else, this allows us to sleep soundly at night.

Let us now move from the inward examination of our motives and actions over the last 94 years to the judgment of the stock market. Your company was started by my father, Mr. -----, in the year----- as a Private Limited Company with a share capital of ₹ 10,000. The company went public in 1978. The face value of the share was ₹ 10 and the premium was ₹ 2½ - making a total cost of ₹ 12.50 per share. The original number of shares issued and converted in the initial public issue in 1978 were 8,20,000 shares, giving a total market value of ₹ 102.5 lakhs. Since then, there were various further issues of additional shares either by way of rights issue or bonus issue and today we have a total of 52,87,815 shares, the market value of which is ₹ 1,150 per share (based upon the average daily closing balance in the period July 1 to July 21, 2011). This gives us a market value of the company of ₹ 608 crores, up from the market cap of ₹ One crore in the year of the initial public issue in 1978. The compound average growth rate in the market cap of the company over 35 years is 25% per annum.

In this journey, dear shareholders, we, you and I, have been fellow-travellers. For me personally, it has been a very satisfying journey, as a professional manager and investor. I do hope that each of you, dear shareholders, have found this journey equally satisfying - not only as investors but as citizens proud to be associated with this enterprise.

The financial results of the June quarter of 2011-12 are good. Net Sales are ₹ 61.8 crores, up 15% over June quarter in the previous year. Net Profit After Tax is ₹ 8.1 crores, up 14% over June quarter in the previous year.

Finally, I must express my profound gratitude to all of you, dear shareholders, for the steadfast confidence you have reposed in our Company and the Team through thick and thin. And thank you for your patient hearing of my thoughts today

3.

Harassment is "tormenting by subjecting to constant interference or intimidation". Law prohibits harassing acts and conduct that "creates an intimidating hostile or offensive working environment," which could be a term or condition of an individual's employment, either explicitly or implicitly or such conduct which has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile or offensive working environment. Another type of harassment is sexual harassment – situations in which an employee is coerced into giving in to another employee's sexual demands by the threat of losing some significant job benefit, such as a promotion, raise or even the job. Sexual harassment is prohibited and an employer is held responsible for all sexual harassment engaged in by employees, "regardless of whether the employer knew or should have known" the harassment was occurring and regardless of whether it was "forbidden by the employer."

4.

'PariPassu': *PariPassu* clause in a debenture means that all the debentures of that particular series are to be paid rateably, if, therefore, security is insufficient to satisfy the whole debts secured by the series of debentures, the amounts of debentures will abate proportionately. If this clause is not included, the debentures will rank in priority for payment in accordance with the date of issue, and if they are all issued on the same date they will be payable according to their numerical order. A company, however, cannot issue a new series of debentures so as to rank '*paripassu*' with any prior series unless the power to do so is expressly reserved and contained in the document of offer.

Registration of charge: Under section 77 (1) of the Companies Act, 2013, it shall be the duty of every company creating a charge within or outside India, on its property or assets or any of its undertakings, whether tangible or otherwise, and situated in or outside India, to register the particulars of the charge signed by the company and the charge-holder together with the instruments, if any, creating such charge in such form, on payment of such fees and in such manner as may be prescribed, with the Registrar within thirty days of its creation.

In terms of Rule 3 of the Companies (Registration of Charges), Rules 2014 for the registration of charge in respect of debentures the following documents should be submitted to the Registrar:

- a. The particulars of charge;
- b. Instrument for the creation or the modification of the charge;
- c. Application in prescribed Form

5.

Power of Attorney to appear before Income Tax Authorities

I,S/o....., R/o.....and partner of the firm M/s.....with registered office at....., do hereby appoint Mr....., S/o....., R/o.....as attorney of the firm above named and authorize him for the purpose hereinafter mentioned :

1. That the said attorney shall appoint an advocate of his choice and hand him over the judgement of the tribunal of Income Tax and instruct him to file the appeal against the order, for the Assessment Year
2. That the said attorney shall execute Vakalatnama to the Advocate appointed by him and shall sign all the related papers under the supervision of the advocate.
3. That specimen signature of the said attorney is given below of this deed.
4. The said attorney shall generally do all other lawful acts necessary for the conduct of the said case.

I hereby declare that the acts done by the said attorney in connection with the work given to him shall be deemed to have been done by me and shall be binding on the firm and its partners.

IN WITNESS WHEREOF I have signed this power of attorney in the presence of the following witnesses:

Signature
(Holder of Power of Attorney)

WITNESSES:

1.....

2.....

SAP 2(ii) Inter old Auditing and Assurance Answer Key

1 A.

Issue of Audit Engagement Letter in Recurring Audits: As per SA 210, "Agreeing the Terms of Audit Engagements", on recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement.

It is not necessary to issue audit engagement letter each year for repetitive audit. It is enough if the same had been issued at the time of taking initial engagement. However, in the following situations it is appropriate to revise the terms of the audit engagement or to remind the entity of existing terms-

- (i) Any indication that the entity misunderstands the objective and scope of the audit.
- (ii) Any revised or special terms of the audit engagement.
- (iii) A recent change in senior management or board of directors.
- (iv) A significant change in ownership.
- (v) A significant change in nature or size of the entity's business.
- (vi) A change in legal or regulatory requirements.
- (vii) A change in the financial reporting framework adopted in the preparation of the financial statements.
- (viii) A change in other reporting requirements.

1 b.

(a) Audit in a Computerised Information System (CIS) Environment: Though it is true that in CIS environment the trial balance always tallies, the same cannot imply that the job of an auditor becomes simpler. There can still be some accounting errors like omission of certain entries, compensating errors, duplication of entries, errors of commission in the form of wrong account head is posted. Possibility of "Window Dressing" and/or "Creation of Secret Reserves" where the trial balance tallied. At present, due to complex business environment the importance of trial balance cannot be judged only upto the arithmetical accuracy but the nature of transactions recorded in the books and appear in the trial balance should be focused.

The emergence of new forms of financial instruments like options and futures, derivatives, off balance sheet financing etc. have given rise to further complexities in recording and disclosure of transactions. In an audit, besides the tallying of a trial balance, there are also other issue like estimation of provision for depreciation, valuation of inventories, obtaining audit evidence, ensuring compliance procedure and carrying out substantive procedure, verification of assets & liabilities their valuation etc. which still requires judgement to be exercised by the auditor.

Responsibility of expressing an audit opinion and objectives of an audit are not changed in the audit in CIS environment. Therefore, it can be said that simply because of CIS environment and the trial balance has tallied it does not mean that the audit would become simpler.

1 c.

The risks of material misstatement may exist at two levels:

- (i) **The overall financial statement level-** Risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.
- (ii) **The assertion level for classes of transactions, account balances, and disclosures-**Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.

2 a.

False: Overall objective of audit does not change in Computer Information System (CIS) environment. But the use of computer changes the processing and storage, retrieval and communication of financial information.

2 b.

Incorrect: As per SA 230 on "Audit Documentation" the working papers are the property of the auditor and the auditor has right to retain them. He may at his discretion can make available working papers to his client. The auditor should retain them long enough to meet the needs of his practice and legal or professional requirement.

2 c.

- (b) **Incorrect.** Companies Act, 2013 requires the company auditor to go beyond the functions of reporting and express an opinion about the propriety or prudence of certain transactions. Also, the auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Therefore it would not be correct to say that an auditor has nothing to do with prudence or profitability of a company because it may impact the going concern.

2 d.

Incorrect, no dividend shall be declared or paid by a company for any financial year except out of the profits of the company for that year arrived at after providing for depreciation or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation.

Alternatively, Correct, assuming it is approved by Central Government as per section 205 of the Companies Act, 1956.

2 e.

Incorrect. Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures.

2 f.

Incorrect: By routine checking we traditionally think of extensive checking and vouching of all entries whereas "Analytical procedure" means evaluation of financial information through analysis of plausible relationships among both financial and non-financial data. It includes the consideration of comparisons of the entity's financial information. Routine checks cannot be depended upon to disclose all the mistakes or manipulations that may exist in accounts, certain other procedures also have to be applied.

From the above, it may be concluded that analytical procedure is not a part of routine audit checking.

3 a.

Meaning of Audit Sampling: "Audit Sampling" means the application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

The objective of the auditor when using audit sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

There are many methods of selecting samples. The principal methods are as follows-

(a) **Random Selection:** This method is applied through random number generators, for example, random number tables. Stratified Sampling is one of the methods of Random Sampling. This method involves dividing the whole population to be tested in a few groups called strata and taking a sample from each of them. Each stratum is treated as if it were a separate population and if proportionate items are selected from each of the stratum. The groups into which the whole population is divided is determined by the auditor on the basis of his judgement e.g. entire expense vouchers may be divided into:

- (i) Vouchers above ₹ 1,00,000
- (ii) Vouchers between ₹ 25,000 and ₹ 1,00,000
- (iii) Vouchers below ₹ 25,000

The auditor can then decide to check all vouchers above ₹ 1,00,000, 50% between ₹ 25,000 and ₹ 1,00,000 and 25% of those below ₹ 25,000.

The reasoning behind the stratified sampling is that for a highly diversified population, weights should be allocated to reflect these differences. This is achieved by selecting different proportions from each strata. It can be seen that the stratified sampling is simply an extension of simple random sampling.

- (b) **Systematic Selection:** In this method, the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerised random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.
- (c) **Monetary Unit Sampling:** This method is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.
- (d) **Haphazard Selection:** In this method, the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.
- (e) **Block Selection:** This method involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.

3 b.

Issue of Shares at a Discount: According to Section 53 of the Companies Act, 2013, except sweat equity issued as mentioned in section 54, any share issued by a company at a discounted price shall be void.

Where a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees and every officer who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees, or with both.

3 c.

Failure to Detect Untrue and Incorrect Financial Position of a Company: In the given case, profit of the company has been inflated by non provisioning of outstanding expenses and by overvaluation of closing stock by ₹ 7.80 lacs and subsequently dividend of ₹ 5 lacs has been paid. Thus it can be said that dividend has been paid out "inflated profit" and not out of "real profit". It was the duty of auditor to ascertain whether the Balance Sheet & Statement of Profit and Loss of the company show a true and fair view of the financial position and revenue earning capacity. For that he has to exercise proper audit procedure of substantive test (i.e. vouching and verification) and valuation of Statement of Profit and Loss & Balance Sheet items, particularly, whether provision for all outstanding expenses has been made or not, whether closing stock has been

properly valued as per AS-2. If not, he should issue qualified report or adverse report. If he failed to do so, he will be held as guilty of gross negligence.

The facts of the case are similar to the established judgement on "The Leeds Estate Building & Investment Co. Ltd vs Shepherd (1887)", where, it was held, that it was an auditor's duty to ascertain that the accounts, he certifies, are correct and that if he fails in his duty, he is liable for damages for dividends wrongly paid by the company out of capital.

4 a.

Obtaining Knowledge of the Business: The auditor needs to obtain a level of knowledge of the client's business that will enable him to identify the events, transactions and practices that, in his judgment, may have significant effect on the financial information among other things.

As per SA 315 – "Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment", the auditor shall obtain an understanding of the following:

- (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework
- (b) The nature of the entity, including:
 - (i) its operations;
 - (ii) its ownership and governance structures;
 - (iii) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and
 - (iv) the way that the entity is structured and how it is financed;to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.
- (c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry.
- (d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement.
- (e) The measurement and review of the entity's financial performance.

In addition to the importance of knowledge of the client's business in establishing the overall audit plan, such knowledge helps the auditor to identify areas of special audit consideration, to evaluate the reasonableness both of accounting estimates and management representations, and to make judgement regarding the appropriateness of accounting policies and disclosures.

4 b.

General Considerations in Framing a System of Internal Check: The term "internal check" is defined as the "checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud". The following aspects should be considered in framing a system of internal check-

- (i) No single person should have an independent control over any important aspect of the business. The work done by one person should automatically be checked by another person in routine course.
- (ii) The duties/work of members of the staff should be changed from time to time without any previous notice so that the same officer or subordinate does not, without a break, perform the same function for a considerable length of time.

- (iii) Every member of the staff should be encouraged to go on leave at least once in a year so that frauds successfully concealed by such a person can be detected in his absence.
- (iv) Persons having physical custody of assets must not be permitted to have access to the books of accounts.
- (v) There should be an accounting control in respect of each important class of assets, in addition, these should be periodically inspected so as to establish their physical condition.
- (vi) The system of Budgetary Control should be introduced.
- (vii) For inventory-taking, at the close of the year, trading activities should, if possible, be suspended. The task of inventory-taking, and evaluation should be done by staff belonging to other than inventory section.
- (viii) The financial and administrative powers should be sub divided very judiciously and the effect of such division should be reviewed periodically.
- (ix) Finally, the system must be capable of being expanded or contracted to correspond to the size of the concern.

4 c.

Auditor's responsibilities regarding comparatives: SA 710, "Comparative Information – Corresponding Figures and Comparative Financial Statements", establishes standards on the auditor's responsibilities regarding comparatives.

The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:

- (i) The comparative information agrees with the amounts and other disclosures presented in the prior period; and
- (ii) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor had audited the prior period's financial statements, the auditor shall also follow the relevant requirements of SA 560 (Revised).

As required by SA 580 (Revised), the auditor shall request written representations for all periods referred to in the auditor's opinion. The auditor shall also obtain a specific written representation regarding any prior period item that is separately disclosed in the current year's statement of profit and loss.

5 a.

Powers of Comptroller and Auditor General: The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 gives the following powers to the C&AG in connection with the performance of his duties-

- (i) To inspect any an office of accounts under the control of the union or a State Government including office responsible for creation of initial or subsidiary accounts.
- (ii) 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.
- (iii) 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 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 transaction as he may determine.

5 b.

Audit against Rules and Orders: Audit against rules and order aims to ensure that expenditure conforms to relevant laws, rules, regulations and orders. It is the function of audit to carry out examination of the various rules, orders and regulations to see that:

- (i) They are not inconsistent with any provisions of the constitution or any law made thereunder.
- (ii) They are consistent with the essential requirements of audit and accounts as determined by C&AG.
- (iii) They do not come in conflict with the orders of, or rule made by, any higher authority.
- (iv) In case they have not been separately approved by competent authority, the issuing authority possesses the necessary rule-making power.

5 c.

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.

5 d.

Advantages of statistical sampling in Auditing: The advantages of using statistical sampling technique in auditing are:

- (i) Sample size does not increase in proportion to the increase in the size of population.
- (ii) Sample selection is more objective and based on law of probability.
- (iii) This provides a means of estimating the minimum sample size associated with a specified risk and precision level.
- (iv) It also provides a means for deriving a calculated risk and corresponding precision.
- (v) It may provide a better description of a large mass of data than a complete examination of all the data, since non-sampling errors such as processing and clerical mistake are not large.

6 a.

Management Representation: According to SA 580 "Written Representations", the management representation cannot substitute other audit evidence that the auditor could reasonably expect to be available to the auditor.

The audit evidences available for checking receivables- say, invoices, debt acknowledgement documents, receipts, statement of accounts, confirmations etc., are available evidences which auditor is duty bound to verify.

In the given case, the management of Ankita Limited wants the auditor to carry out audit on all areas except on area of receivables. The management of the company also committed to give representation and further owned responsibility for any errors in these respects.

However, just because management had owned responsibility for the correctness of its evaluation of receivables, the auditor cannot shirk his responsibility. This is negligence on his

part if he relies on the management representation without assessing the corroborative available evidences. There cannot be any restriction on scope of audit in case of statutory audit.

6 b.

Relationship between Materiality and Audit Risk: SA 320 on 'Materiality in Planning and Performing an Audit' requires that the auditor should consider materiality and its relationship with audit risk when conducting an audit. Materiality depends on the size and the nature of the items judged in the particular circumstances of its misstatement.

The audit should be planned so that audit risk is kept at an acceptably low level. There is an inverse relationship between Materiality and the degree of audit risk. Higher the materiality level the lower the audit risk and vice-versa. After the auditor has assessed the inherent and control risks, he should consider the level of detection risk that he is prepared to accept and, based upon his judgment, select appropriate substantive audit procedures. If the auditor does not perform any substantive procedures, detection risk, that is, the risk that the auditor will fail to detect a misstatement, will be high.

The auditor's assessment of audit risk may change during the course of an audit according to the need and development of the circumstances.

6 c.

Re - issue 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.
- (iv) Where partly paid shares are forfeited for non-payment of call and re-issued as fully paid, the compliance of the provisions of Section 53 of the Companies Act, 2013 is essential as issuance of shares at discount other than sweat equity share are void.

7 a.

Acceptance of a Change in Engagement: An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so.

A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement, especially any legal or contractual implications.

If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complied with the SAs applicable to the changed engagement, the report issued would be appropriate for the revised terms of engagement. In order to avoid confusion, the report would not include reference to-

- (i) the original engagement; or
- (ii) any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.

The auditor should not agree to a change of engagement where there is no reasonable justification for doing so.

If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.

If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall-

- (i) Withdraw from the audit engagement where possible under applicable law or regulation; and
- (ii) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

7 b.

Effect of Subsequent Events: SA 560 "Subsequent Events", establishes standards on the auditor's responsibility regarding subsequent events.

According to it, 'subsequent events' refer to those events which occur between the date of 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. It lays down the standard that the auditor should consider the effect of subsequent events on the financial statements and on the auditor's report.

The auditor should obtain sufficient appropriate evidence that all events upto the date of the auditor's report requiring adjustment or disclosure have been identified and to identify such events.

The auditor should-

- (i) obtain an understanding of any procedures management has established to ensure that subsequent events are identified.
- (ii) inquire of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.

Examples of inquiries of management on specific matters are:

- Whether new commitments, borrowings or guarantees have been entered into.
- Whether sales or acquisitions of assets have occurred or are planned.
- Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- Whether there have been any developments regarding contingencies.
- Whether there have been any developments regarding risk areas and contingencies.
- Whether any unusual accounting adjustments have been made or are contemplated.

- Whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements as would be the case, for example, if such events call into question the validity of the going concern assumption.
 - Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements.
 - Whether any events have occurred that are relevant to the recoverability of assets.
- (iii) Read minutes, if any, of the meetings, of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available.
- (iv) Read the entity's latest subsequent interim financial statements, if any.
- (v) Read the entity's latest available budgets, cash flow forecasts and other related management reports for periods after the date of the financial statements.
- (vi) Inquire, or extend previous oral or written inquiries, of the entity's legal counsel concerning litigation and claims.
- (vii) Consider whether written representations covering particular subsequent events may be necessary to support other audit evidence and thereby obtain sufficient appropriate audit evidence.

When the auditor identifies events that require adjustment of, or disclosure in, the financial statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements. If such events have not been considered by the management and which in the opinion of the auditor are material, the auditor shall modify his report accordingly.

7 c.

Using the work of an Auditor's Expert: As per SA 620 "Using the Work of an Auditor's Expert", the expertise of an expert may be required in the actuarial calculation of liabilities associated with insurance contracts or employee benefit plans etc., however, the auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the auditor's use of the work of an auditor's expert.

The auditor shall evaluate the adequacy of the auditor's expert's work for the auditor's purposes, including the relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence as per SA 500.

Further, in view of SA 620, if the expert's work involves use of significant assumptions and methods, then the relevance and reasonableness of those assumptions and methods must be ensured by the auditor and if the expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data in the circumstances must be verified by the auditor.

In the instant case, Mr. X, Mr. Y and Mr. Z, jointly appointed as an auditor of KRP Ltd., referred their own known Actuaries for valuation of gratuity scheme. Actuaries are an auditor's expert as per SA 620. Mr. Y's referred actuary has provided the gratuity valuation report, which later on found faulty. Further, Mr. Z is not agreed with this report therefore he submitted a separate audit report specifically for such gratuity valuation.

In such situation, it was duty of Mr. X, Mr. Y and Mr. Z, before using the gratuity valuation report of Actuary, to ensure the relevance and reasonableness of assumptions and methods used. They were also required to examine the relevance, completeness and accuracy of source data used for such report before expressing their opinion.

Mr. X and Mr. Y will be held responsible for grossly negligence and using such faulty report without examining the adequacy of expert actuary's work whereas Mr. Z will not be held liable for the same due to separate opinion expressed by him.