

Two marks questions.

Q: ① Define Revenue Reserve.

Ans: "A Revenue reserves which is created with no specific purpose is known as a General Reserve. Creation of revenue reserves is not compulsory. It is a wise business policy to create a revenue reserve to meet out the unknown or unexpected future contingent expenses or liability.

Q: ② Give two difference between reserves and provisions.

Ans: The two difference between Reserves and provisions are

- ① Reserves are created to strengthen the financial position of business where as provisions are created to meet out known future expenses or losses.
- ② Reserves are created by debiting Profit & Loss appropriation account where as provisions are created by debiting P&L A/c for example, provision for bad debts.

Q: ③ Who can appoint a company auditor?

Ans: The first auditor of a company is appointed by the Board of Directors within a period ~~one~~ of one month from the date of registration of the company.

Q: ④ Give two points of DTI Qualification of company auditor.

Ans: According to Section 226(3) of the Companies Act following persons are not qualified for acting as company auditor.

- ① A body corporate.
- ② An officer or employee of the company.
- ③ A person who is a partner or who is in the employment of the officer or employee of the company.

Q: ⑤ State two features of audit report?

Ans: The audit report represents the following feature.

- ① Audit report aims to furnish the findings of audit cover.
- ② It is based on the summary of book entries from the books of accounts, P&L A/c B/L and other supporting documents.

Q: (6) Name the types of audit report.

Ans: Audit report may be of following types.

- ① A clean, clear, unqualified, conventional or positive report.
- ② Qualified report, Adverse or negative report

Q: (7) Give two effects of showing excess profit.

Ans: If the company shows excess profit in the financial statement it affects the companies particularly tax authorities

- 1) If co. shows excess profit in the P&L acc. the company has pay more taxes than the normal tax.
- 2) It also effect declaration of dividend to equity share holders. because equity shareholder proposes dividend.

Q: (8) Define Interim Dividend.

Ans: Any amount of dividend paid by company between two annual general meeting is called interim dividend. The interim dividend is paid before the closure of accounts. Interim dividend is paid on the basis of half year profit and anticipating same amount of profit for the next or last period of the financial year.

Q: (9) Define management audit?

Ans: According to Taylor and Perry 'management auditing is a method to evaluate the efficiency of management at all levels throughout the organisation or more specifically it comprises the investigation of a business by an independent body from the highest executive level downwards, in order to ascertain whether sound management prevails throughout and to report as to its efficiency or otherwise with recommendations to ensure its effectiveness where such is not the case.'

Q: (10) State two objectives of social audit

(3)

Ans:- Following are the two objectives of social audit.

- ① To create the funds or to collect the funds from public and utilise for social activities purposes, and Auditors.
- ② Can examine income from donors and how much the fund is created for specific purposes.
- ③ To know carefully the provisions of the co-operative society act relating to accounts and audit.

Q: (11) Define professional mis-conduct:

Ans:- Professional mis-conduct has been defined by section-22 of the chartered Accountant Act 1949 "as for the purpose of this Act the expression 'professional conduct' shall be deemed to include any act or commission specified in any of the schedules, but nothing in this section shall be construed to limit or abridge in any way the power conferred or duty cast on council under sub section (1) of section 21 to enquire in to conduct of any member of institute under any other circumstances".

Q: (12) Expand A.C.A. F.C.A. & I.C.A.I

Ans: A.C.A. → Associated Chartered Accountant
F.C.A → Fellowship Chartered Accountant
I.C.A.I → Institute of Chartered Accountant of India.

Q: (13) Define General Reserve

Ans:- Profit set aside out of current profit to meet out unknown or unexpected contingent expenses or liabilities are called General Reserve. Reserves created for no specific purpose is called a general reserve. Reserve created as a wise business policy to strengthen the financial competency of business is called General Reserve.

Q: (14) Define sinking fund?

Lancaster defines a sinking fund as 'any fund which is created by the regular investment of such an amount as ~~with~~ with compound interest earned thereon will accumulate to a given sum at the end of a stated period'.

Q: (15) Who can become a company Auditor?

(4)

Ans: An independent professional accountant appointed to examine the company books of accounts and to report on it is called company auditor. A person who is having professional knowledge of company's books of A/c. under the provisions of companies act and as per the provisions of companies act, if he report he will be considered as a company auditor.

Q: (16) What is qualified report?

Ans:- Qualified report is contrary to the unqualified report. The auditor in this explains the errors, irregularities, doubts, or complaints of the business.

Q: (17) Define Dividend

Ans: It is a return on the money invested in the company. It is a return to shareholders capital. part of the profit shared among shareholders or members is called a dividend. part of the company profit legally recommended by BOD for distribution among shareholders is called a dividend.

Q: (18) Define Environmental Audit.

Ans: An environmental audit is type of evaluation intended to identify environmental compliance and management system implementation gaps, along with related corrective action. In this way they perform an analogous function to financial audits. There are generally two different types of environmental audits.

Q: (19) Define a cost Audit

Ans- According to the "Terminology of cost Accounting" ICWA London "cost audit is the verification of the correctness of cost accounts and of the adherence to the cost accounting plan".

According to Smith and Day 'By the term 'cost Audit' is meant the detailed checking of the costing systems, technique and accounts to verify their correctness and to ensure adherence to the objective of cost Accounting'.

Q: (20) what is clean-report?

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Ans: When the auditor is satisfied that there is nothing objectionable in the books of ACES then he gives a clear report this is called as unqualified report or clean report.

Here the auditor gives his opinion without any reservation.

Q: (21) Define Ethical values.

Ans: Values that are based on principles of moral, right and wrong behaviour, that apply to a specific group of people, professional field or form of human conduct and interaction are called ethical values. Justice, honesty and integrity are the main constituents of ethical values.

Q: (22) Give two examples of MIS-conduct.

① two examples of MIS-conduct i.e.,

① Reference to Disciplinary Committee

on receiving any type of complaint against any member. If it appears to be fair to the council, the council may refer the case to disciplinary committee to inquire into the matter and submit its reports.

② Disciplinary Action on receiving the report from disciplinary committee, if it appears that the member is not guilty it may record the proceeding accordingly and dismiss the case.

Q: (23) Define Secret Reserve:

"Secret Reserve" are an under statement of assets, or an over statement of liabilities by a corresponding under statement of capital. It is also called hidden Reserve, internal Reserve, inner Reserve, undisclosed Reserve.

(Simple words meaning) Reserve existing but not apparent in financial statement is called a Secret Reserve.

Q: (24) Give two merits of creating Reserve:

Ans: The main two merits of creating Reserve are

① Accumulated profit are retained in the business.

② creating Reserve leads to utilise to increase the working capital and expand the business.

Q: 25) Define a company Auditor:

Ans:- Every Joint Stock company is legally required to appoint its auditor under the Companies Act 1956. Section 224 of the Act contains provisions relating to the appointment of auditor of a company. The Companies Act has empowered their authorities to appoint an auditor of a company. They are Board of Directors, the shareholders and the central Govt.

Q: 26) What is the ceiling limit on holding audit units.

Ans:- In order to provide sufficient work to the new entrants to the profession the Companies Act 1974 inserted subsection IB and IC to section 224 which provides ceiling limit on holding number of audit units by auditor.

Accordingly no auditor is allowed to hold not more than twenty company audit units. of which ten shall not have paid-up capital Rs twenty lakhs or more. It implies an auditor can hold ten small audits with less than twenty five lakhs and ten big companies. The audit units held in the name of firm jointly are also taken for computation of ceiling limit.

Q: 27) Define certificate:

Ans:- It is the declaration on the true and fair position of company affairs based on facts. It gives guarantee the absolute correctness and reliability on financial statement of company.

The certificate duly signed by auditor makes the auditor responsible for any mis statement or wrong certification. It certified statements represents figures and facts.

Q: 28) What is disclaimer opinion?

Ans:- When an auditor is unable to form his opinion on books of accounts due to one or the other reason the auditor may express the disclaimer opinion. It implies that the books of accounts and financial statements shows a true and fair position of a company subject to our inability to check the books of A/c or any specific records that enables the auditor to dis-claim from audit risks on the one hand and avoid the consequence.

Q: (29) Define divisible profit?

(7)

Ans: There is no statutory definition of the term "divisible profit". However Section 205 of the Companies Act, provides for determination of divisible profit. As per this section no company can distribute the profit except out of current year profit and transfer to the general reserve not less than 10% or any rate specified by the central Govt.

Legal decision defines the term divisible profit. Those profit which can be legally distributed to the shareholders as dividend is called divisible profit.

Q: (30) Give two difference between profit and divisible profit.

Ans: The main two difference between profit & divisible profit are -

- ① Profit is excess of income over expenditure for the given period whereas Divi profit legally recommended for distribution among shareholders is called Divi profit.
- ② Profit is computed according to generally accepted accounting principles and Indian Accounting Standard whereas Divisible profit is computed according to provisions of AIA or provisions of clauses 85 to 94 of Table-A of Companies Act 1956.

Q: (31) Give two objectives of auditing educational institutions.

Ans: The main objective of Auditing in educational institutions are -

- ① conducting Audit in educational institutions the Institute can keep their books of accounts very neat and not to make any fraud or mistakes.
- ② The auditors should know the receipts & payments see & Income and Expenditure all whether they are kept accurately or not.

Q: (32) Define human resource audit.

Ans: Human resource audit means to examine the man power policy ensure that right man is placed at right place, to ensure that man power policy is in tune with objectives of the company. Consider such an effective means, policies and procedures, in development, maintenance and promoting the human resource of the company.

Q: (33) Define professional Ethics. (8)

Ans: According to Oxford Dictionary 'The word "ethics" has been defined as "science of morals, moral principles, whole field of moral science". The word ethics means moral philosophy which teaches men their duties and the reason for it. duties are voluntarily self-imposed. Ethics stands to denote a standard behaviour which every one of us worship and strictly adopt in our routine personal or professional life for happy life and healthy world.

Q: (34) Name the types of companies allowed to create secret reserve.

Ans:- only ⁽¹⁾ banking companies,
⁽²⁾ insurance companies
⁽³⁾ companies engaged in financing business
can create secret reserve; Any other companies feeling the necessity of creating secret reserves can create secret reserve with the prior permission from central Govt.

Q: (35) mention two duties of a company auditor.

Ans:- The main of a company auditor are
⁽¹⁾ He has to perform duties relating to Statutory.
⁽²⁾ He has to perform his duties relation to Directors and Shareholder of the company.

Q: (36) who can fix the remuneration of company auditor?

Ans:- The remuneration of company auditor is fixed by appointing authorities
⁽¹⁾ The first auditor is appointed by the B.O.D. and remuneration is also fixed by the directors
⁽²⁾ The second and subsequent auditor are appointed by Shareholders in A.G.M. the remuneration is fixed by Shareholders.
⁽³⁾ If the central Govt appoints the auditor, the remuneration is fixed by central Govt.

Q: (37) name two types of dividend

Ans: ∴ There are two types of dividends
⁽¹⁾ Final Dividend
⁽²⁾ Interim-Dividend.

Q: 38) Give two features of Interim Dividend -

Ans: Following are the two features of Dividend -

- ① Half year ends - Interim dividend is usually paid by the end of half year on preparation of half year P/L A/c
- ② Articles of Association: The Board empowered to declare Interim dividend provided the A/A permits to do so.

Q: 39) Give two merits of audit for sole traders?

Ans: Following are the two merits of audit for sole traders

- ① It assures that accounts are free from errors and frauds
- ② Audited statements are readily acceptable by the financial agencies and loans are provided easily without any further inquiries

~~Q: 40) Define management audit:~~

Q: 40) Expand - M.A.O.C.A.R.O. 1988.

Ans: M. → Manufacturing

A. → and

O. → other

C. → comparisons

A. → Auditors

R. → Reports

O. → orders.

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Q: ① Explain Qualification and dis-qualification of company auditor.

Ans:- Qualification and dis-qualification of company auditor.

1) Qualification of company auditor.

According to section 226 of Companies Act 1956 the company auditor should be a qualified chartered Accountant within the meaning of Chartered Accountant Act 1949.

A partnership firm of chartered Accountant in which all members are qualified may be appointed as company auditor in the name of firm.

As per section 226(2) any other persons holding certificate under the Restricted Auditor certificate Rules 1956 is also qualified to act as company auditor.

② Dis-qualifications:-

According to section 226(3) of the Companies Act following persons are not qualified for acting as company auditors.

- ① A body corporate.
- ② An officer or employee of the company.
- ③ A person who is a partner, or who is in the employment of the officer or employee of the company.
- ④ A person who is indebted to the company for an amount exceeding one thousand rupees.
- ⑤ A director or member of private company.

Q: ② write a note on audit of pre-incorporation profit.

Q: (3) What are the features of dividend?

Ans: Meaning of dividend

Dividend is declared once in a year is called a annual dividend or final dividend. Dividend declared at the end of accounting year is called a final dividend. Generally dividend is paid once in a year after the final A/c are prepared and finding profit, the available profit distribution to share holders.

Features of dividend -

Following ~~the~~ are the features of dividend -

- 1) It is Indicator for financial progress and prosperity.
 - 2) To get approval of A.G.M.
 - 3) Rate of dividend -
 - 4) Articles of Association.
 - 5) Personal liability of Directors.
- Let us explain in brief one by one.

① It is Indicator for financial progress and prosperity

Dividend is declared when the company has earned sufficient profit it shows an effective management of resources of company.

② To get approval of Annual General meeting

The board of Directors are authorised to declare dividend to get approval from members in annual general body meeting.

③ Rate of dividend: The Board is free to declare any rate of dividend which depends up on the profitability of the co.

④ Articles of Association: If board is empowered to declare the dividend provided the A/A permits to do so.

⑤ Personal liability of Directors: If the interim dividend becomes illegal, the Directors are personally held responsible and have to repay amount of dividend so declared to the company otherwise it becomes payment of dividend out of capital which is against the law.

Q: (4) Define social audit. State its objectives.

(12)

Ans: " Social audit means, the audit which is conducted specially clubs, charitable institutions, sports clubs, social clubs, Rotary clubs, the auditors has to know, how the donation is collected, and how they utilised for social activities. and how much subscription is received. In this regard the institutions may conduct such type of social audit.

feature objectives of social audit

- ① To verify and vouch entrance fees received with members application
- ② The auditor must vouch the members subscriptions with the copies of receipts issued, and register of members.
- ③ He must also see that arrears of subscription which are irrecoverable are written off
- ④ The auditor must vouch income from the sale of refreshments and from the supply of special services such as tennis courts etc.
- ⑤ He must examine the effectiveness of the system of internal check and control in regard to food stuffs stores etc.
- ⑥ The main objective of social audit is to know the social clubs are maintained according to their rules and regulations

Q: (5) Explain difference between final and interim dividends

Ans: The main difference between final dividend and interim dividend are as follows.

- ① Final dividend is declared at the end of the financial year whereas interim dividend declared at the end of half year of financial year
- ② Final dividend recommended by board resolution requires the approval of members in their AGM. whereas interim dividend recommended by board resolution needs no approval by shareholders in their AGM.
- ③ Final dividend once declared becomes the liability of company. whereas, interim dividend does not become the liability of company.

Q: Define secret reserve and state the objectives of creating it. (13)

Ans: Reserves existing but not apparent in financial statement is called a secret reserve. A reserve created but not disclosed in the books of Accounts, and the Balance sheet.

Definition of Secret Reserve

"Secret Reserve" are an under statement of assets or an over statement of liabilities by a corresponding understatement of capital. It is also called hidden Reserve, internal Reserve and undisclosed Reserve.

Objectives of Secret Reserve.

- ① To strengthen the financial position of a company.
- ② To maintain stable rate of dividend even in the event of either no profit or lesser profit in any of the future year.
- ③ To compensate the unforeseen losses without the knowledge of share holders.
- ④ To prevent the entry of competitors into the business by showing lesser amount of profit.
- ⑤ To retain part of the profit undistributed, which may be used in time of emergency.

Q: Explain the requirements of audit report.

Ans: The audit report must satisfy the legal requirements as well as the expectations of all those present and prospective stakeholders.

- ① The audit report should be in the prescribed format as it is required by the provisions applicable to different companies. In case of joint stock companies as per the Companies Act, in case of insurance co-insurance Act, in case of banking co-banking regulations Act 1949 etc.
- ② It must be based on the information and explanation derived in the process of audit work.
- ③ It must reflect the true and fair representation of books of accounts and financial statements.

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- (14)
- ④ The auditor should express his opinion on the fact that the company has maintained sufficient books of accounts so as to summarise its transactions.
 - ⑤ The auditor should express that, he has obtained all necessary information to the best of his knowledge required for audit.
 - ⑥ The auditor must express his opinion whether profit and loss account represents the true profit made by a company, the B/S has been prepared in prescribed form and reflects a true financial position of a company.
 - ⑦ The audit report must be simple, clear, and concise.
 - ⑧ The report must give correct information so as to enable the user to take right decisions.
 - ⑨ It should not give scope for any different interpretations.
 - ⑩ It must be free from personal bias.
 - ⑪ It must serve the purpose for which the audit is conducted.

Q:- Give advantages of Auditing partnership firms.

Ans: Audit of partnership firm is not compulsory. The audit of partnership is necessary only under the provisions of Income Tax Act, where the turnover exceeds beyond 40 lakhs. Even otherwise also partnership firms get their books audited for availing the benefits from auditing.

Advantages of audit for partnership firms.

- ① Assures the correctness of A/c's maintained by managing partner.
- ② Regular audit provides greater degree of reliability and acceptability of A/c's.
- ③ Financial statements duly certified by qualified auditor impress more on the higher business parties and make them to extend business relation.
- ④ Audited financial statements are readily acceptable to financial agencies in procuring of loans.
- ⑤ Audited financial statements provides ready instrument on financial viability of lending money.
- ⑥ Audited financial statements are accepted by tax authorities without any further inquiries and the amount for

assessment of income tax can be completed regularly.

- ① In case of conversion of partnership firm into joint stock co. audited statements are taken as base for finding out surplus, price, or Goodwill etc.
- ② With the help of audited statements it is very easy to settle the claims of the firm.
- ③ Quick settlement of claims on account of retirement or on death of partners.
- ④ The firm may get a valuable suggestion for effective application of capital or alternative methods of investments.
- ⑤ Regular visit of qualified accountant enable the firm to get timely suggestion in effective tax planning.

Q: Define management audit and state its objectives.

Ans: Definition of management audit.

According to - R-R Howard "management audit is an investigation of business from highest level to downward in order to ascertain whether sound management prevails throughout, ~~thus ascertain whether~~ facilitating the most effective relationship with outside world and the most efficient organization and smooth of internal organization.

Objectives of management audit.

- ① To examine the managerial plans, policies, procedures, techniques and tools deployed in tune with companies vision mission and goals.
- ② To evaluate the functioning of managerial power in the interest of company.
- ③ To review the periodic progress of managerial performance.
- ④ To streamline the managerial performance in the light of ~~the~~ competitive environment and new challenges.
- ⑤ To promote efficiency in harvesting intellectual property, physical property, financial, managerial and marketing resources available in achieving highest order of organizational goals.

These are the main objectives of management audit.

Q: Explain the appointment of a Company auditor? (16)

Ans:- Appointment of Company Auditors. Section 224 (5)

① First auditor of a company:

- ① Every company whether private or public must appoint its auditor to get its accounts audited.
- ② The first auditor of a company is appointed by the board of directors within a period of one month from the date of registration of the company. The auditor or auditors so appointed shall hold the office till the conclusion of first annual general meeting. Such auditor or auditors may be continued or replaced by nominating new auditors.

The nomination of new auditors need to be noticed fourteen days of meeting.

- ③ If the Board fails to make such appointment, the co. may appoint the first auditor in annual general meeting. Such an auditor is also automatically reappointed.

II. Subsequent appointments. Section 224 (1)

- ① Every company shall appoint its auditor or auditors in every general meeting and such auditor shall hold their office till the conclusion of next annual general meeting.

The appointment letter or intimation is to be given to such auditors within seven days unless he is a retiring auditor. As a matter of fact, shareholders need to make appointment of auditor, but in practice it is the board of directors only make nomination and approval is taken in annual A.G.M.

- ② Acceptance of appointment as auditor on receiving appointment letter from company, the auditor should send his acceptance or rejection letter to registrar of company within 30 days from receipt of an appointment letter.

- ③ In case if the co. fails to appoint its auditor in A.G.M. the central Govt will appoint the company auditor to fill the vacant position.

Q: Explain the duties of a company auditor. (17)

Ans: The present law has imposed a heavy duties and responsibility on the part of a company auditor in safeguarding the interest of not only members but also potential investors and the public at large. All the duties and responsibilities of company auditors can be discussed into four groups.

(i) Statutory Duties

(ii) Contractual Duties

(iii) Duties imposed by legal decisions.

(iv) Professional Duties.

Let us discuss explain in brief, one by one

(i) Statutory Duties:-

In pursuance with the provisions of section 227(1A) the company auditor needs to make enquiries on the following

1) Loans and advances:- whether the loans and advances made by company are properly secured and the no-loan is made against the int. of the co.

2) In case of non financial company, whether investments have been sold at a price below the purchase price.

3) Whether personal expenses have been charged to revenue account in the books of co.

4) Any transactions represented only by book entries are not prejudicial to the interest of the company.

(ii) Contractual Duties:-

(1) He must perform all the duties to discharge all his duties in the best interest of present as well as potential investor's public

(2) An auditor is required to discharge his duties with due care and diligence so as to avoid the audit risk.

(iii) Duties imposed by legal or court decisions

(1) A company auditor is required to get acquainted with rights, duties and responsibilities provided under the Act of the co.

(2) The auditor is required to make physical verification of stocks and property of the co.

(iv) Professional Duties (1) public interest (2) professional code of conduct (3) personal qualities (4) Application of skill & diligence. (5) Report.

Q: State the importance of audit report

(18)

Ans: The following points reflect the importance of audit reports.

- ① It is an essential part of reporting on the performance of company.
- ② It fulfills the statutory requirements. Every company must enclose an audit report along with profit and loss account and balance sheet.
- ③ It is a base for present and potential investors to decide on their investment portfolio.
- ④ It provides a base to the shareholders in confirming the accuracy, authenticity, acceptability and reliability of accounts and management performance.
- ⑤ It is a legal evidence for the audit work done by auditor.

Q: Define capital reserve. State the purpose for which capital reserve can be used.

Ans: Reserve created out of capital transaction is called a capital reserve. Profits arising out of non-trading transactions result in capital profit. Profits which are not a revenue reserve are called a capital profit or capital reserve. Profit which cannot be distributed as dividend among shareholders is called a capital profit. Capital profit transferred to reserve is called a capital reserve.

Capital reserve can be used.

- ① Profit arising on sale of fixed assets. As it is not a regular profit it is not credited to P&L ac. but it is transferred to capital profit.
- ② Profit on the redemption of debenture in the market at a discount.
- ③ Premium received on issue of shares or debentures.
- ④ Profit earned prior to incorporation of company.
- ⑤ Profit made on re-issue of forfeited shares.
- ⑥ Capital redemption reserve created for redemption of redeemable preference shares or debentures.

- (19)
- (7) compensation received for loss of goodwill or reputation is a capital profit
 - (8) profits of an exceptional nature which have not been earned in the regular course of business.
 - (9) Discount on redemption of redeemable preference shares or debentures.
 - (10) Assets Replacement Reserve fund.

Capital reserve is not available for distribution of dividend among share holders but usually it is applied for following purposes: (1) Bonus shares (2) Intangible Assets (3) to write off capital loss (4) to pay premium (5) to convert partly paid up shares to fully paid up shares etc.

Q: Give audit programme for Self Help Group.

Ans: Following are the points to be considered by the auditor while conducting audit programme ~~for~~ ^{of} Self Help Group.

- (1) To know the formation and development of Self Help Groups, particular place, and to study how many members are enrolled, by referring members register.
- (2) The Auditor should analyze the role of S.H.G. for promoting socio-economic development of poor rural women.
- (3) The auditor has to evaluate the extent of economic empowerment of members of Self Help Group in terms of members' incomes and how much their savings by referring their individual savings as he can examine each member contribution.
- (4) He also examine member's Assets, and their progress.
- (5) The auditor also examine every members of Groups performance, whether their economic problems solving or not by utilizing S.H.G.'s contribution.
- (6) He also know concern Bank, A.C. and their balance and Bank's Loans how much they provides the loans to members, and how the loan is recovered from members and their outstanding, etc.