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CA FINAL NOVEMBER 2016 EXAM

AUDITING

Test Code - F N J 6 0 4 2

BRANCH - (Multiple)

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Answer-1 (a) :

Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 refers to professional misconduct of a member in practice if he solicits client or professional work either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means. Therefore, members should not adopt any indirect methods to advertise their professional practice with a view to gain publicity and thereby solicit clients or professional work. Such a restraint must be practiced so that members may maintain their independence of judgement and may be able to command the respect of their prospective clients. While elaborating forms of soliciting work, the Council has specified that a member is not permitted to indicate in a book or an article, published by him, the association with any firm of chartered accountants.

In this case, Mr. Z a Chartered Accountant published the book and mentioned his professional experience and his association as a partner with M/s XYZ, a firm of chartered accountants.

Mr. Z being a chartered accountant in practice has committed the professional misconduct by mentioning that at present he is a partner in M/s. XYZ, a chartered accountants firm. **(5 Marks)**

Answer-1 (b) :

Partnership with an Advocate: As per Clause (4) of Part I of the First Schedule to the Chartered Accountants Act, 1949, a chartered accountant will be guilty of professional misconduct if he enters into partnership with any person other than a chartered accountant in practice or a person resident without India who but for his residence abroad would be entitled to be registered as a member under Clause (v) of Sub-section (1) of Section 4 or whose qualification are recognized by the Central Government or the Council for the purpose of permitting such partnership. However, Regulation 53B of the Chartered Accountants Regulations, 1988 permits a Chartered Accountant in practice to enter into partnership with other prescribed Professionals which includes an Advocate, a member of Bar Council of India.

In the instant case, Mr. Prem, a chartered accountant, has entered into partnership with Mr. Loy, an advocate.

Thus, he would not be guilty of professional misconduct as per Clause (4) of Part I of First Schedule read with Regulation 53B. **(5 Marks)**

Answer-1 (c) :

Prescribed minimum audit fee is recommendatory, not mandatory in nature. Therefore, acceptance of audit assignment by M/s JKL, a firm of Chartered Accountants having 5 partners, of AashaPvt. Ltd. for audit fees of Rs. 2,500 is not violation of any provisions.

Therefore M/s JKL will not be held liable for guilty of misconduct. **(5 Marks)**

Answer-1 (d) :

Accepting Appointment as an Auditor: As per Chapter 7 of Council General Guidelines 2008, a member of the Institute of Chartered Accountants of India in practice shall be deemed to be guilty of professional misconduct if he accepts appointment as auditor of an entity in case the undisputed audit fee of another chartered accountant for carrying out the statutory audit under Companies Act or various other statutes has not been paid.

As per the proviso, such prohibition shall not apply in case of a sick unit where a sick unit is defined to mean "where the net worth is negative".

In the instant case, though the undisputed fees are unpaid, Mr. Cane would still not be guilty of professional misconduct since M/s Amber Ltd. is a sick unit having negative net worth for the year 2013-14.

(5 Marks)

Answer-2 (a) :

The compliance approach is to assess whether proper control procedures have been established / followed by the Practice Unit to ensure that assurance services are being performed in accordance with Technical, Professional and Ethical Standards. **(1 Mark)**

The following areas shall be considered

1) Assurance services records for Administration **(0.5 Mark)**

2) Review and Evaluation of System of Internal controls **(0.5 Mark)**

3) Substantive Tests **(0.5 Mark)**

4) Financial Statements Presentation and **(0.5 Mark)**

5) Assurance Services Conclusions **(0.5 Mark)**

6) Assurance Services Reporting **(0.5 Mark)**

Answer-2 (b) :

1. As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor or a firm of internal auditors, namely:-

   (a) every listed company; **(0.5 Mark)**

   (b) every unlisted public company having- **(0.5 Mark)**

      (i) paid up share capital of fifty crore rupees or more during the preceding financial year; or

      (ii) turnover of two hundred crore rupees or more during the preceding financial year; or

      (0.5 Mark)

      (iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or **(0.5 Mark)**

      (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and **(0.5 Mark)**

   (c) every private company having-

      (i) turnover of two hundred crore rupees or more during the preceding financial year; or

      (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year. **(0.5 Mark)**

2. In our case, Alpha Ltd. will fall under category (b) of unlisted public company. Since Alpha Ltd's paid up share capital, turnover, outstanding loans and deposits are within the prescribed limit, Alpha Ltd. is not bound to appoint an internal auditor. **(1 Mark)**

Answer-2 (c) :

1. As per section 143(8) of the Companies Act, 2013, where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company under this Act or by any other person qualified for appointment as an auditor of the company. **(1 Mark)**

2. Where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed. **(1 Mark)**

3. Thus, a non- Chartered Accountant can be appointed as an auditor of branch office located outside India provided he is qualified for appointment as an auditor in that country. **(1 Mark)**

4. When the accounts of the branch are audited by a person other than the company's auditors, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the audit of accounts of the branch and the audit of the company as a whole. **(1 Mark)**

5. Also, there is great necessity for a proper rapport between these two auditors for the purpose of an effective audit. **(0.5 Mark)**

6. In recognition of these needs, the Council of the Institute of Chartered Accountants of India has dealt with these issues in SA 600, "Using the Work of another auditor". **(0.5 Mark)**

7. It makes clear that in certain situations, the statute governing the entity may confer the right on the principal auditor to visit a component and examine the books of accounts and other records of the said component, if he thinks it necessary to do so. **(1 Mark)**

8. Where another auditor has been appointed for the component, the principal auditor would normally be entitled to rely upon the work of such auditor unless there are special circumstances to make it necessary for him to visit the component and/or to examine the books of accounts and other records of the said component. **(1 Mark)**

9. Further, it requires that the principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditors' purpose, in context of the specific assignment. **(1 Mark)**

Answer-3 (a) :

The broad matters to be considered while obtaining knowledge of business for a new audit assignment are set out in SA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment. These are: **(1 Mark)**

(i) Relevant industry, regulatory, economic and other external factors including the applicable financial reporting framework. **(1 Mark)**

(ii) The nature of the entity, including: (1) its operations; (2) its ownership and governance structures; (3) the types of investments that the entity is making and plans to make, including investments in special-purpose entities; and (4) 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 **(2 Marks)**

(iii) The entity's selection and application of accounting policies. **(1 Mark)**

(iv) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. **(1 Mark)**

(v) The measurement and review of the entity's financial performance **(1 Mark)**

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 **(1 Mark)**

Answer-3 (b) :

In order to achieve proper internal control over the sale of tickets and its collection by the Yaari Co. Ltd., following system should be adopted -

1. Printing of tickets:Serially numbered pre-printed tickets should be used and designed in such a way that any type of ticket used cannot be duplicated by others in order to avoid forgery. Serial numbers should not be repeated during a reasonable period, say a month or year depending on the turnover. The separate series of the serial should be used for such denomination. **(1 Mark)**

2. Ticket sales: The sale of tickets should take place from the Central ticket office at each of the 8 centers, preferably through machines. There should be proper control over the keys of the machines.

   (1 Mark)

3. Daily cash reconciliation:Cash collection at each office and machine should be reconciled with the number of tickets sold. Serial number of tickets for each entertainment activity/denomination will facilitate the reconciliation. **(1 Mark)**

4. Daily banking:Each day's collection should be deposited in the bank on next working day of the bank. Till that time, the cash should be in the custody of properly authorized person preferably in joint custody for which the daily cash in hand report should be signed by the authorized persons.

   (1 Mark)

5. Entrance ticket:Entrance tickets should be cancelled at the entrance gate when public enters the centre. **(1 Mark)**

6. Advance booking: If advance booking of facility is made available, the system should ensure that all advance booked tickets are paid for. **(1 Mark)**

7. Discounts and free pass: The discount policy of the Yaari Co. Ltd. should be such that the concessional rates, say, for group booking should be properly authorized and signed forms for such authorization should be preserved. **(1 Mark)**

8. Surprise checks:Internal audit system should carry out periodic surprise checks for cash counts, daily banking, reconciliation and stock of unsold tickets etc. **(1 Mark)**

Answer-4 (a) :

1. This case requires attention to SA 560 "Subsequent Events" and AS 4 "Contingencies and Events occurring after the Balance Sheet Date". **(1 Mark)**

2. As per AS 4 "Contingencies and Events occurring after the Balance Sheet Date", adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern (i.e., the continuance of existence or substratum of the enterprise) is not appropriate.

   (2 Marks)

3. AS 4 also requires disclosure of the non-adjusting event, in the report of the approving authority. **(1 Mark)**

4. Further, as per SA 560 "Subsequent Events", the auditor should assure that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. **(1 Mark)**

5. The event took place after the close of the accounting year and does not relate to conditions existing at the balance sheet date. Thus, it will have no effect on items appearing at the balance sheet date because as per AS 4 "Contingencies and Events Occurring after Balance Sheet Date" have to be adjusted that provide evidence of conditions existing as at the balance sheet date. However, the auditor has to ensure that this loss will not materially affect the substratum of the enterprises as per its size, nature and complexity of operations. **(2 Marks)**

6. Thus, subject to satisfaction in respect of non-violation of going concern concept, the company has correctly accounted by not providing provision. However, the auditor is required to ensure the proper disclosure of abovementioned event. **(1 Mark)**

Answer-4 (b) :

Audit Plan for Evaluating the Reliability of Controls in CIS Environment: In evaluating the effects of a control, the auditor needs to assess the reliability by considering the various attributes of a control. Some of the attributes for example are that the control is in place and is functioning as desired, generality versus specificity of the control with respect to the various types of errors and irregularities that might occur, general control inhibit the effect of a wide variety of errors and irregularities as they are more robust to change controls in the application sub-system which tend to be specific control because component in these sub-system execute activities having less variety, that whether the control acts to prevent, detect or correct errors etc.

(2 Marks)

The auditor focuses here on- (i) Preventive controls: Controls which stop errors or irregularities from occurring. (ii) Detective controls: Controls which identify errors and irregularities after they occur. (iii) Corrective controls: Controls which remove the effects of errors and irregularities after they have been identified

(1.5 Marks)

The auditors are expected to see a higher density of preventive controls at the early stages of processing or conversely they expect to see more detective and corrective controls later in system processing. **(1 Mark)**

Further, while evaluating the reliability of controls, the auditor should:

(i) Ensure that authorized, correct and complete data is made available for processing **(0.5 Mark)**

(ii) Provide for timely detection and correction of errors. **(0.5 Mark)**

(iii) Ensure that the case of interruption in the work of the CIS environment due to power, mechanical or processing failures, the system restarts without distorting the completion of the entries and records **(0.5 Mark)**

(iv) Ensure that accuracy and completeness of output; **(0.5 Mark)**

(v) Provide adequate data security against fire and other calamities, wrong processing, frauds etc., **(0.5 Mark)**

(vi) Prevent unauthorized amendments to the program; **(0.5 Mark)**

(vii) Provide for safe custody of source code of application software and data files. **(0.5 Mark)**

Answer-5 (a) :

Validity of appointment as a statutory auditor: To ensure that the appointment is valid, the incoming auditor should take the following steps before accepting his appointment:

1. **Ceiling limit:** Ensure that a certificate has been issued under section 139 of the Companies Act, 2013 so that the total number of company audits held by the firm (including the new appointment) will not exceed the specified number. **(1 Mark)**

2. **Resolution at AGM:** Verify that at AGM of the Company, a proper resolution is passed. Inspect general meeting minutes book to see that the appointment is duly recorded. **(1 Mark)**

3. **Compliance with law:** Satisfy that the legal procedure contemplated in section 139 and 140 of the said Act, dealing with the appointment and removal of existing auditor, have been followed. Also check whether section 139(5) and 139(7) (in case of a government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments- appointment by the Comptroller and Auditor General of India) are attracted and complied with.

(2 Marks)

4. **Code of conduct:** Communicate with the previous auditor, if any, in writing, to ascertain if there are any professional reasons for not accepting the appointment. **(1 Mark)**

Answer-5 (b) :

A) 1. As per Section 139(1), every company shall, at the first annual general meeting, appoint an <u>individual or a firm</u> as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting **(1 Mark)**

2. The auditor appointed in the annual general meeting shall hold office from the conclusion of that meeting till the conclusion of the sixth annual general meeting, with the meeting wherein such appointment has been made being counted as the first meeting **(1 Mark)**

3. Provided that such appointment shall be subject to ratification in every annual general meeting till the sixth such meeting by way of passing of an ordinary resolution. **(1 Mark)**

4. Therefore , M Ltd. Cannot appoint a statutory auditor , be it individual or firm , for a period of more than 5 years . **(1 Mark)**

5. The resolution is invalid

B) 1. The resolution will be invalid even in the case a firm is appointed as the statutory auditor as the term of the auditor cannot extend beyond the 6th AGM . **(1 Mark)**

2. Therefore , even in case of audit firm R & Co. the resolution is invalid.

Answer-5 (c) :

1) **Corporate Governance**: Corporate governance is the <u>system</u> by which companies are <u>directed and controlled</u> by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely <u>financial reporting</u>. The Board of Directors are responsible for governance of their companies. A number of reports and codes of corporate governance have been published internationally **(1 Mark)**

2) The Securities and Exchange Board of India (SEBI) had set up a Committee under the Chairmanship of Shri Kumar Manglam Birla to formulate the code of corporate governance. The Securities and Exchange Board of India (SEBI) with the objective to align its provisions to the recently notified provisions of the Companies Act, 2013, ('the Act') has specifically reviewed clause 49 of the Listing Agreement, to adopt leading industry practices on corporate governance and to make the corporate governance framework more effective. The revised clause 49 on corporate governance shall be applicable to all listed companies with effect from 1 October 2014, except for the clause relating to the constitution of a Risk Management Committee which shall apply to the top 100 listed companies by market capitalisation, as at the end of the immediate previous financial year. **(2 Marks)**

3) Various clauses deal with composition of board, setting-up of audit committee including scope thereof, remuneration of directors, meetings of Board, contents of management discussions and analysis report, etc. **(1 Mark)**

4) Clause 49 also prescribes that there shall be a separate section on Corporate Governance in the annual reports of company, with a detailed compliance report on Corporate Governance. Non compliance of any mandatory requirement i.e. which is part of the listing agreement with reasons there of and the extent to which the non- mandatory requirements have been adopted, should be specifically highlighted. Further, the entity is required to obtain a certificate from the statutory auditor of the entity as regards compliance of conditions of corporate governance as stipulated in that clause.

(1 Mark)

5) A monitoring cell set up by SEBI, will assess compliance by companies with the requirements of clause 49 and report noncompliance's to SEBI within 60 days from the end of each quarter. This shows the strong intent of SEBI to not only bring in regulations, but also put in place a monitoring mechanism.

(1 Mark)

Answer-6 (a) :

(a) Advances to DOT COM Companies

(i) Evaluate the efficacy of internal control system in general to ascertain whether an advance is made only after satisfying itself as to the credit worthiness of the borrower and after obtaining sanction from the appropriate authorities of the bank. The sanction for an advance must specify, among other things, the limit of borrowing, nature of security, margin to be kept, interest, terms of repayment, etc. Also see that all the necessary documents, e.g., agreements, demand promissory notes, letters of hypothecation, etc. have been executed by the parties before advances are made. **(0.5 Mark)**

(ii) Examine loan documents such as certificate of commencement of business, resolution of board of directors, and resolution of shareholders. **(0.5 Mark)**

(iii) Verify the business plan of the company especially where the revenue model is in place. Verify whether the company depends only on outside funding or can self generate funds. **(0.5 Mark)**

(iv) Examine in case the security is in the form of mortgage, apart from mortgage deed (in the case of English Mortgage) or letter of intent to create mortgage (in the case of Equitable Mortgage), the evidence of registration of the charge with the Registrar of Companies. **(0.5 Mark)**

(v) Review the operation of advance account to see that limit is not generally exceeded; that the account is not becoming stagnant; that the customer is not drawing against deposits which are not free from lien; that the account is not window-dressed by running down overdrafts at the year end and again drawing further advances in the new year, etc. **(0.5 Mark)**

(vi) Examine whether there is a healthy turnover in the account. It should be seen that the frequency and the amounts of credits in the account are commensurate with the sanctioned limit and the nature and volume of business of the borrower. Any unusual items in the account should be carefully examined by the auditor. If the auditor's review indicates any unhealthy trends, the account should be further examined. The auditor's examination should also cover transactions in the postbalance sheet date period. Large transactions in major accounts particularly as at the year-end may be looked into to identify any irregularities in these accounts. **(0.5 Mark)**

(vii) Review periodic statements, cash flow statements, latest financial statements, etc. to assess the recoverability of advances. **(0.5 Mark)**

(viii) Verify whether the advance is secured and determine whether the security is legally enforceable, i.e., whether the necessary legal formalities regarding documentation, registration, etc., have been complied with; whether the security is in the effective control of the bank; and to what extent the value of the security, assessed realistically, covers the amount outstanding in the advance. **(0.5 Mark)**

(ix) Ensure that proper provisioning norms have been applied in view of non-observance of terms, coupled with irregular payment of interest and default in repayment of instalments, if any. **(0.5 Mark)**

(b) Balances in Account of a Bank situated in a Foreign Country

(i) Verify the ledger balances in each account with reference to the bank confirmation certificates and reconciliation statements as at the year-end. **(0.5 Mark)**

(ii) Review the reconciliation statements and pay particular attention to the following.

(1) Examine that no debit for charges or credit for interest is outstanding and all the items which ought to have been taken to revenue for the year have been so taken. This should be particularly observed when the bills collected, etc., are credited with net amount and entries for commission, etc. are not made separately in the statement of account. **(0.5 Mark)**

(2) Examine that no cheque sent or received in clearing is outstanding. As per the practice prevalent among banks, any cheques returned unpaid are accounted for on the same day on which they were sent in clearing or on the following day. **(0.5 Mark)**

(3) Examine that all bills or outstanding cheques sent for collection and outstanding as on the closing date have been credited subsequently, **(0.5 Mark)**

(iii) Examine the large transactions in inter-bank accounts, particularly towards the yearend, to ensure that no transactions have been put through for window-dressing. **(0.5 Mark)**

(iv) Check original deposit receipts in respect of balances in deposit accounts in addition to confirmation certificates obtained from banks in respect of outstanding deposits. **(0.5 Mark)**

(v) Check whether these balances are converted into the Indian currency at the exchange rates prevailing on the balance sheet date and ensure compliance with AS 11 on "Accounting for the Effects of Changes in Foreign Exchange Rates". **(0.5 Mark)**

Answer-6 (b) :

1. According to SRS 4410 "Engagements to Compile Financial Information", if an accountant becomes aware of material misstatements, the accountant should persuade the management to carry out necessary amendments in the financial statements or other compiled financial information. If such amendments are not made and the financial statements are still considered to be misleading the accountant should withdraw from the engagement. **(1.5 Marks)**

2. As per guidance note on Tax Audit under section 44AB of the Income Tax Act, 1961, the stock auditor should study the procedure followed by the assessee in taking the inventory of closing stock at the end of the year and the valuation thereof. **(1 Mark)**

3. The tax auditor should also examine the basis adopted for ascertaining the cost and this basis should be consistently followed. It is very necessary for an auditor to ensure that the method followed for valuation of stock results in disclosure of correct profit and gains. **(1 Mark)**

4. In the instant case, appointment was made to compile financial statements for tax audit purpose of Yeshaa & Co., a firm. It is our duty of to ensure that method followed for valuation of stock results in disclosure of correct profit and gains. **(0.5 Mark)**

5. In this case the stock valuation was grossly understated. Consequently, disclosure of profit is also not correct. Hence, contention of the Yeshaa& Co., that you are not the conducting an audit, the said figures duly certified by the firm should be accepted is not correct. **(1 Mark)**

Answer-6 (c) :

1. It is the auditor's responsibility to audit the statement of accounts and prepare tax returns on the basis of books of accounts produced before him.

2. Also if he is satisfied with the books and documents produced to him, he can give his opinion on the basis of those documents only by exercising requisite skill and care and observing the laid down audit procedure. **(1 Mark)**

3. In the instant case, Income tax Officer observed some irregularities during the assessment proceeding of M/s Rain Ltd. Therefore he started investigation of books of accounts audited and signed by Mr. Young, a practicing Chartered Accountant. While going through the books, he found that M/s Rain Ltd. Used to maintain two sets of Books of Accounts, one is the official set and other is covering all the transactions. Income Tax Department filed a complaint with the ICAI saying Mr. Young had negligently performed his duties.

4. Mr. Young, the auditor was not under a duty to prepare books of accounts of assessee and he should, of course, neither suggest nor assist in the preparations of false accounts. He is responsible for the books produced before him for audit. He completed his audit work with official set of books only.

   (1 Mark)

5. In this situation, as Mr. Young, performed the auditing with due skill and diligence; and, therefore, no question of negligence arises. It is the duty of the Department to himself investigate the truth and correctness of the accounts of the assessee. **(1 Mark)**

Answer-7 (a) :

1. Energy auditing is defined as an activity that serves the purposes of assessing energy use pattern of a factory or energy consuming equipment and identifying energy saving opportunities. **(1 Mark)**

2. In that context, energy management involves the basis approaches reducing avoidable losses, improving the effectiveness of energy use, and increasing energy use efficiency. **(1 Mark)**

3. The function of an energy auditor could be compared with that of a financial auditor. The energy auditor is normally expected to give recommendations on efficiency improvements leading to monetary benefits and also advise on energy management issues. Generally, energy auditor for the industry is an external party. **(1 Mark)**

4. The following are some of the key functions of the energy auditor:

    (i) Quantify energy costs and quantities.

    (ii) Correlate trends of production or activity to energy costs.

    (iii) Devise energy database formats to ensure they depict the correct picture – by product, department, consumer, etc.

    (iv) Advise and check the compliance of the organisation for policy and regulation aspects.

    (v) Highlight areas that need attention for detailed investigations.

    (vi) Conduct preliminary and detailed energy audits which should include the following:

    (1.5 Mark)

    (a) Data collection and analysis.

    (b) Measurements, mass and energy balances.

    (c) Reviewing energy procurement practices.

    (d) Identification of energy efficiency projects and techno-economic evaluation.

    (e) Establishing action plan including energy saving targets, staffing requirements, implementation time requirements, procurement issues, details and cost estimates.

    (f) Recommendations on goal setting for energy saving, record keeping, reporting and energy accounting, organisation requirements, communications and public relations. **(1.5 Mark)**

Answer-7 (b) :

Provision for Proposed Dividend: The Schedule III to the Companies Act, 2013, requires disclosure of the amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share to be disclosed separately. It also requires separate disclosure of the arrears of fixed cumulative dividends on preference shares. **(1 Mark)**

Further, as per AS 4 "Contingencies and Events Occurring After the Balance Sheet Date", there are events which, although take place after the balance sheet date are sometimes reflected in the financial statement because of Statutory requirement or because of their special nature and such item includes the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered in the financial statements **(1.5 Marks)**

Hence, a question that arises is as to whether this means that proposed dividend is not required to be provided for when applying the Schedule III **(1.5 Marks)**

Keeping this in view and the fact that earlier the disclosure of provision for proposed dividend was statutory requirement as per Old Schedule VI to the Companies Act, 1956, hence it was an adjusting event as per AS 4 and was provided for. However, this statutory requirement has been changed to disclosure by way of notes as per Schedule III to the Companies Act, 2013. Therefore, provision for proposed dividend is a non-adjusting event

In the instant case, management of the company states that the proposed dividend does not represent a liability hence, no entry has been passed in the books of the company. Contention of the directors for non provision as per Schedule III is correct since statutory compliance has been changed. Consequently, amount of proposed dividend should be disclosed by means of a note to the accounts **(1 Mark)**

Answer-7 (c) :

In assessing the turnover which the business would be able to maintain in the future, the following factors should be taken into account:

(i) **Trend:** Whether in the past, sales have been increasing consistently or they have been fluctuating. A proper study of this phenomenon should be made **(1 Mark)**

(ii) **Marketability:** Is it possible to extend the sales into new markets or that these have been fully exploited? Product wise estimation should be made. **(1 Mark)**

(iii) **Political and economic considerations:** Are the policies pursued by the Government likely to promote the extension of the market for goods to other countries? Whether the sales in the home market are likely to increase or decrease as a result of various emerging economic trends? **(1 Mark)**

(iv) **Competition:** What is the likely effect on the business if other manufacturers enter the same field or if products which would sell in competition are placed on the market at cheaper price? Is the demand for competing products increasing? Is the company's share in the total trade constant or has it been fluctuating? **(1 Mark)**