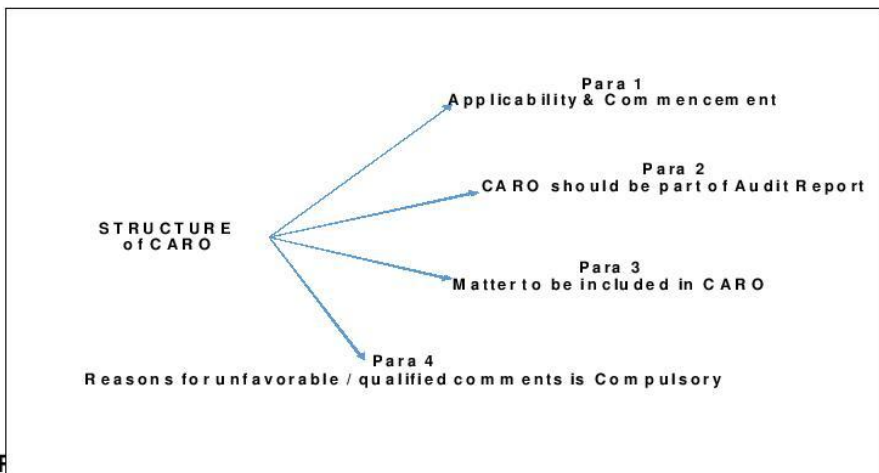


**CA Ravi Taori**  
**CARO 2016**

Hello Everyone, We all know CARO is very important topic for exams. Hence we have prepared short notes analysing various cases which are possible. It covers 100+ case scenarios in short (Just 9 pages). These notes along with further addition on how to write CARO answers will be taught in Quick revision batches. Detailed notes are also available use following link to get them.



**Q1** What are exemptions available in CARO?

**Applicability of CARO**

It shall apply to every company including a foreign company as defined under Sec 2 (42).

Exemptions (IB-COPS)[Each exemption is discussed in detail along with Cases]

1. Insurance Company
2. Banking Company
3. Section 8 Company (Charitable Purpose)
4. One Person Company
5. Private Limited Company (All conditions below should be satisfied)
  - Not Subsidiary / Holding of Public Company (i.e Holding / Subsidiary should not be public)
  - Paid up capital + Reserves not exceeding 1 Crore
  - Loan from Banks & FIs not exceeding 1 Crore -- At any point of time during the year
  - Total Revenue not exceeding 10 crores -- During the Financial Year (As disclosed in Schedule III)

6. Small Company (Other than Public Company)
  - Paid-up share capital of which does not exceed 50 Lakhs or such higher amount as may be prescribed which shall not be more than 5 Crores;
  - Turnover of which as per its last profit and loss account does not exceed 2 crore or such higher amount as may be prescribed which shall not exceeding 20 crore:
  - Provided that nothing in this clause shall apply to—
    - a) A holding company or a subsidiary company; (In short there should be no holding or subsidiary company)
    - b) A company registered under section 8; or

c) A company or body corporate governed by any special Act (ICAI / RBI / NABARD etc)	
CASE	EXEMPTION
<b>GENERAL CASES</b>	
<b>Q2</b> Is a consolidated financial statement exempt from CARO?	Yes they are exempt. The Order specifically provides that it shall not apply to the auditor's report on consolidated financial statements.
<b>Q3</b> Are branch audit reports exempt from CARO?	No they are not exempt. It is applicable to branch auditors while preparing their report. As there reports will be studied and merged to make final audit report of the company.
<b>INSURANCE COMPANIES</b>	
<b>Q4</b> Is exemption available for both life insurance & general insurance?	Yes, exemption is for both.
<b>BANKS</b>	
<b>Q5</b> Will co-operative bank get exemption?	Yes, it is not a company not governed by company act, it is co-operative society, so CARO is as such not applicable
<b>Q6</b> Will NBFC get exemption?	No, Exemption is only to Banks.
<b>Q7</b> In December NBFC was converted into Bank?	Yes, we have to see status as on year end and it is a bank at year end.
<b>Q8</b> In December Bank was converted into NBFC?	No, we have to see status as on year end and it is a NBFC at year end.

<b>SECTION 8</b>	
<b>Q9</b> Company was licensed under Sec 25 of company Act 1956, will it get exemption	Yes, they will get exemption as specified in Guidance Note on CARO 2016
<b>PRIVATE COMPANY</b>	
<b>Q10</b> 75% equity shares of private company were held by public company till 15th Jan, on this date 30% were sold in open market, Will such private company get exemption.	Yes, we have to see status as on balance sheet date, here as on balance sheet date percentage holding will be 45%, so it is not subsidiary of public company, so they will get exemption.
<b>Q11</b> Private unlimited company has paid up capital of 90 lakhs, outstanding loans 85 lakhs, turnover of 7 crores and it is not subsidiary or holding of public company?	Yes they will get exemption, as per guidance not "Private Limited Company" should be construed to mean a company registered as a "private company" (as defined in sub-section (68) of section 2 of the Act) So private limited as well as unlimited both will get exemption. This is exactly opposite of the point of view taken by earlier Statement on CARO. (Very important for exams)
<b>Q12</b> Private limited company has equity share capital of 20 lakhs, preference share capital of 10 lakhs, general reserves of 30 lakhs, P&L debit balance	Computation of paid up capital & reserves:- Eq 60 + Pref 10 + Gen Res 30 – Debit bal of P&L (60) + Sec Premium 10 + Capital Reserve 15 + Share Forfeiture 5

<p>(60) lakhs, Securities Premium of 10 lakhs, Capital Reserve of 15 Lakhs, Share Application 20 lakhs, Share Forfeiture 5 lakhs, Revaluation Reserve 8 lakh, Capital Redemptin Reserve 3 lakhs, Share Option Outstanding Account 6 lakhs will this company get exemption?</p>	<p>+ Revaluation Reserve 8 + Capital Redemptin Reserve 3 + Share Option Outstanding 6 = 88, As it is not crossing 1 crore and if other conditions satisfied company can get exemption.</p>
<p><b>Q13</b> Loan 40 lakhs, Interest Accrued as on balance sheet date 8 lakhs, interest due and unpaid 12 lakhs , How much will be counted for the purpose of exemption ?</p>	<p>In case of term loans, interest accrued and due is considered as a borrowing whereas interest accrued but not due is not considered as a borrowing. So <math>40 + 12 = 52</math> lakhs will be counted.</p>
<p><b>Q14</b> Out of loan 30 lakhs, 5 lakh is due within 12 months from date of balance sheet hence it is shown in current liability as current maturity of long term loan. So how much loan should be considered 30 lakhs or 25 lakhs?</p>	<p>Current maturity of long term borrowings will also form part of borrowings. Moreover, outstanding dues in respect of credit cards would also be considered while calculating the limit of Rs. one crore; in respect of borrowings outstanding from a bank or financial institution. So here we will consider <math>25 + 5 = 30</math> whole loan amount outstanding irrespective of where it is shown in balance sheet.</p>

<p><b>Q15</b> Private limited company has following borrowings from Mr Mukesh Ambani 20 Lakhs, Mr Vijay Malaya 5 lakhs, ICICI Bank 5 lakhs, IFCI 10 lakhs is exemption available?</p>	<p>We have to consider borrowings only from Banks &amp; FIs so total is ICICI 5 + IFCI 10 = 15 lakhs, it is below 1 crore so exemption is available.</p>
<p><b>Q16</b> Will loan from NBFC will be counted?</p>	<p>Yes, the term "financial institution" shall also cover a non-banking financial company (NBFC)</p>
<p><b>Q17</b> Loan during they year rose to 1.6 crore but it was repaid regularly and as on balance sheet date it has reduced to nil, will such private company get exemption?</p>	<p>No, in case of loan outstanding we have to see balance during the year and if any time it exceeds 1 crore condition required for exemption will be broken.</p>
<p><b>Q18</b> Private limited company has Sale of goods Rs 4 Crore , Sale of services Rs 2 Crore, Sales return Rs 1.5 Crore (Including 0.5 Crore from previous year) Excise Duty included in sale of goods Rs 75 lakhs, Interest on Investment 20 lakhs, Profit on sale on Investments 30 lakhs, Scrap Sales Rs 40 lakhs, VAT on sales included above 20 lakhs is CARO applicable?</p>	<p>Computation of Turnover Sale (Goods) 4 crore + Sale (Services) 2 Crore – Sales Return (1.5 Crore) – *Excise Duty 75 lakhs – *VAT on Sales 20 lakhs + Interest on Investments 0.2 + Profit on sale of Investments 0.3 + Scrap sales 0.4 = 4.45 Crores *If excise and VAT are accounted separately then they will not be included. We has assumed that accounting will be on separate basis and hence they are excluded. *In problem it is said that excise</p>

	and vat amount are included in given sales they doesn't comment on method of accounting, so we have to take popular assumption and solve the case. As Turnover is below 5 Crores CARO not applicable.
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**SM ALL COMPANY**

**Q19** A Ltd is small company but it does not fulfil conditions of private company?

Yes such company will get exemption. It may also be noted that in case a company is covered under the definition of small company, it will remain exempted from the applicability of the Order even if it doesn't fulfil conditions of exemption for private company.

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## QUICK REVISION For Nov'16 Exam

Course Coverage with Notes

**125+ Very IMP Questions in "6 Hours" from**

**IMP Topics | SAs | RTPs  
CARO 2016 | Amendments | PM**

(Focusing on how to write answers in Exam)

**Time : 10am to 4pm**



<b>PUNE</b>	<b>2<sup>nd</sup> Oct</b>
<b>AHMEDABAD</b>	<b>3<sup>rd</sup> Oct</b>
<b>MUMBAI</b>	<b>5<sup>th</sup> Oct</b>
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**Q20** How to remember all clauses of CARO with numbers?





**SLIDE 1 (After Passing CA)**

 <p>(Flipkart to buy professional accessories)   Cl 1   Fixed Assets</p>  <p>(Indian Airlines to book flight tickets)   Cl 2   Inventory</p>  <p>(LinkedIn to search contacts for job application)   Cl 3   Loans given to Sec 189 Parties</p>	 <p>(Live.com to send emails for jobs)   Cl 4   Loans given under Sec 185 186 (Directors &amp; Others)</p>  <p><b>Dropbox</b> (Dropbox to get soft copy of his documents)   CL 5   Deposits Taken</p>  <p>(CNN to get updated about current affairs)   Cl 6   Cost Records</p>
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**SLIDE 2 (Job Interviews)**

 <p><b>SBI</b> STATE BANK OF INDIA</p>  <p><b>LIC</b> LIFE INSURANCE CORPORATION OF INDIA</p>  <p><b>Infosys</b></p>  <p><b>Finolex Cables Limited</b></p>  <p><b>Micromax</b> nothing like anything</p>  <p><b>Network 18</b></p>	<p>(SBI biggest bank of India)   Cl 7   Statutory Dues</p> <p>(LIC biggest insurance company of India)   Cl 8   Loan Repayment</p> <p>(Infosys India's Biggest Software Company)   Cl 9   Application of funds from IPO / FPO</p> <p>(Finolex biggest cable company of India)   Cl 10   Fraud</p> <p>(Micromax India's biggest Mobile Company)   Cl 11   Managerial Remuneration</p> <p>(India's biggest network, Network 18)   Cl 12   Nidhi Company</p>
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**Side 3 (Fruits between interviews)**

   	<p>(Raisin)   Cl 13   Related Party Transactions</p> <p>(Pineapple)   Cl 14   Private Placement</p> <p>(Nuts)   Cl 15   Non Cash Transaction</p> <p>(Carrot)   Cl 16   Certificate of Registrations by RBI</p>
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**Clause I / 1 (Flipkart)**

1<sup>st</sup> Comment → Maintenance of proper records including Quantity & Situation of FA  
*(Record should be kept for all assets whether constructed / acquired or taken on finance lease / It should include fully depreciated, amortised, impaired assets / Location of moving assets can be kept in separate records, mention it in report / in case assets are located at home of staff then indicate name & designation in location of field)*

2<sup>nd</sup> Comment → Reasonableness of physical verification  
*(Annual verification is reasonable / it can be extended upto 3 years but in such case mention it in report)*

3<sup>rd</sup> Comment → If there are material discrepancies is it properly adjusted in books of accounts

4<sup>th</sup> Comment → Whether title deed of immovable properties is in name of the company if not details should be given *(P&M, TDR are not immovable properties / Discrepancies generally arise in conversion from proprietor, partnership to company, amalgamation / if documents are lost see certified copies, FIR, take written representation)*

**Clause II / 2(Indian Airlines)**

1<sup>st</sup> Comment → Reasonableness of physical verification of inventory  
*(Loose tools unless covered by AS 10, Packing Material are part of inventory / Reasonable interval of time for inventory is generally 1 year)*

2<sup>nd</sup> Comment → Any material discrepancies observed, then whether it is adjusted.  
*(If perpetual inventory are maintained comparison can be done / If not maintained arrive at book inventory for comparison by preparing reconciliation / if even reconciliation is not possible then auditor should report it)*

**Clause III / 3(LinkedIn)**

1<sup>st</sup> Comment → Applicable to those companies who has given loan to parties covered in register maintained under Sec 189 *(It covers names of parties covered in Sec 184(2) which are related to directors & parties covered in Sec 188 / Loan can be in cash or in kind)*

2<sup>nd</sup> Comment → Whether terms of condition are prejudicial *(Terms generally includes interest , security, repayment schedule, restrictive covenants of agreement / Concessional rates of interest to its employees who are related to directors as per policy of company are not prejudicial)*

3<sup>rd</sup> Comment → Whether schedule of repayment is specified & Whether repayment or receipt is regular *(If there is no repayment schedule specify in report)*

5<sup>th</sup> Comment → Total amount overdue for more than 90 days then comment on reasonableness of steps taken for recovery *(Steps can be in the form of reminders, meetings, ceasing transactions, lawyers notice, auction etc / they may not be legal steps, legal steps is one of steps expected)*

**Clause IV / 4(Live.Com)**

1<sup>st</sup> Comment → Loans, Investments, Guarantee & Security is in Compliance with Sec 185 & 186

*(Sec 185:- No loan to directors or any person in which director interested unless it is given to MD / WTD under employee scheme or approved by special resolution or given under ordinary course of business provided interest is more than bank rate / WOS for business)*

*(Sec 186:- Not more than two layers of investment companies shall be used to invest funds of the company/ Overall limit higher of 60% (Paid up share capital + Free Reserves + Securities Premium Account) or 100% (Free Reserves + Securities Premium Account) whichever is higher, to cross this limit special resolution will be required / rate of interest should not be less than government securities yield)*

2<sup>nd</sup> Comment → If non compliance then concerned details *(Sec 185 Max amount outstanding & balance as on sheet date balance / Sec 186 amount involved and balance outstanding at year end)*

**Clause V / 5(Dropbox)**

→ Only applicable if company has accepted deposits

1<sup>st</sup> Comment → Compliance with RBI Circulars + Sec 73 to 76 & other relevant sections of company act 2013

2<sup>nd</sup> Comment → If non compliance explain nature of non-compliance

3<sup>rd</sup> Comment → if order is passed by CLB / NCLT / RBI / Court / Any Other Tribunal compliance with the same

**Clause VI / 6(CNN)**

1<sup>st</sup> Comment → Whether cost records are applicable

2<sup>nd</sup> Comment → Whether such records are made and maintained *(No detailed examination only general review & obtain management representation and specify this in report)*

**Clause VII / 7(SBI)**

*(Government includes foreign government / Payment to government under agreement won't be covered)*

1<sup>st</sup> Comment → Regularity in depositing undisputed statutory dues including (PF / ESIC / Direct Taxes / Indirect Taxes etc *(Such reporting is required where periodic payments are required:- monthly, quarterly etc for example no need to comment on custom duty here but rent & interest to be paid regularly under customs act will be covered / Non Payment of advance tax on due dates and later on paying it along with interest because of windfall gain is not irregularity)*

2<sup>nd</sup> Comment → Arrears of outstanding statutory dues outstanding more than 6 months as on balance sheet date. *(Date till which we can pay amount without attracting penalties or interest should be considered as due date / if authority has granted additional time, stay then last date of such stay can be considered as due date)*



3<sup>rd</sup> Comment → Details of taxes not been deposited on account of any dispute, specify amount & forum (*Mere Representation, clarification will not be considered as dispute there should be positive evidence to prove that appeal is pending or sustainable appeal can be made / application to rectify order passed u/s 154 is also considered as dispute as we are going against order / details of dispute should be given irrespective of whether provision is made in books or not / report only if amount is not deposited*)

*All amounts disclosed should include penalty & interest amount.*

### Clause VIII / 8(LIC)

1<sup>st</sup> Comment → If there is default of loan from Fls / Bank / Govt or Debenture Holders (*Only default of principal in case of borrowings & dues (principal & interest) in case of debentures should be covered / Here government doesn't include Govt Co, PSUs, Foreign Government / In case of disputes present prevailing terms should be considered & also explain dispute / all defaults should be reported even if later on reschedulement or restructuring happens fact should be specified*)

2<sup>nd</sup> Comment → If there is default then period & amount of default. (*Continuing defaults of previous years as on balance sheet date & current year defaults should be specified*)

### Clause IX / 9(Infosys)

→ Applicable for IPO / FPO of all kind of securities also TERM Loans (*GDR, ADR are not covered here because they are not IPCs but offer for sale / Term loans means beyond 36 months as per banking industry*)

1<sup>st</sup> Comment → Application for purpose for which they were raised (*No need to see one to one relationship, its ok if money is deposited in common account, overall receipts of fund and utilization should be appropriate / Spending on improved version of asset is proper application*)

2<sup>nd</sup> Comment → If not applied for proper purpose Delays / Defaults / Subsequent Rectification should be specified (*If loan is not yet utilised and kept in short term investments then such fact should be disclosed in report*)

### Clause X / 10 (Finolex Cable)

→ 2 types of fraud are covered by the company or fraud on the company by officers or employees (*Other frauds if observed should be dealt with SA 240*)

1<sup>st</sup> Comment → whether any fraud is noticed or reported (*These frauds can noticed or reported by either auditor or management, internal auditor or cost auditor or others*)

2<sup>nd</sup> Comment → If yes nature & amount involved (*This is apart from reporting under Sec 143(12)*)

### Clause XI / 11 (Micromax)

1<sup>st</sup> Comment → Whether managerial remuneration is approved & paid within limits as per Sec 197 & Schedule V (*Sec 197 gives % limits & Sec 198 shows how to compute profits /*

Schedule V is applicable if there are inadequate profits or losses / these sections are applicable only to public companies)

2<sup>nd</sup> Comment → If there is unauthorised or over payment then what are steps taken for refund of such amount (Remuneration doesn't include sitting fees & payment for professional nature services not given in director's capacity / if there is default specify payment made, excess payment, amount due for recovery as on balance sheet date & steps of recovery )

**Clause XII / 12(Network 18)**

→ Applicable only to Nidhi Company (mutual benefit company)

→ 1<sup>st</sup> Comment → Maintaining Net Owned Funds: Deposits → 1:20 (Net Owned funds= Paid up Eq Sh Cap + Free Res – Acc Loss- Intangible Assets)

→ 2<sup>nd</sup> Comment → 10% Unencumbered Term Deposits (In Scheduled commercial bank (other than a co-operative bank or a regional rural bank), or post office deposit / Term Deposits should be as outstanding on last working day of second preceding month)

**Clause XIV / 13(Raisin)**

1<sup>st</sup> → Its only about transactions with related parties [Related Party means as defined under Sec 2 (76) ]

2<sup>nd</sup> → We have to comment on compliance with Sec 177 & Sec 188 (177—Approval of Audit Committee / Sec 188—Approval of BOD / Ordinary Resolution if specific limit is crossed)

3<sup>rd</sup> → We have to comment on disclosures of related party in financial statement (Compliance of AS 18 disclosures)

**(Clause XV / 14(Pineapple))**

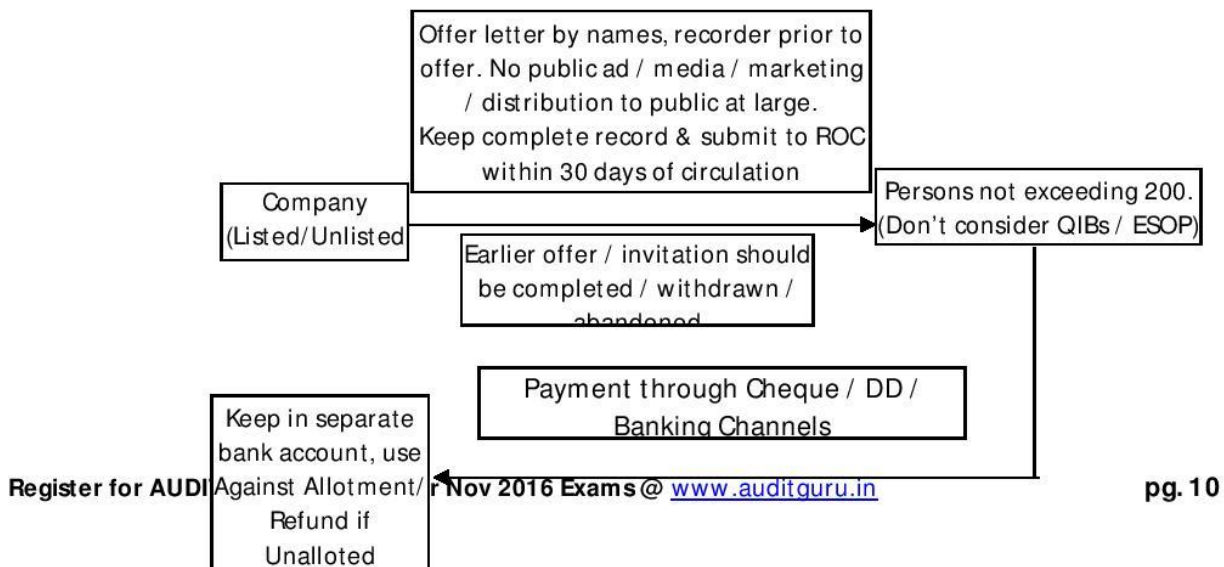
1<sup>st</sup> Comment → whether there is preferential allotment / private placement of shares / convertible debentures.

2<sup>nd</sup> Comment → whether requirements of section 42 of company act 2013 are fulfilled.

3<sup>rd</sup> Comment → whether money is used for the purpose for which it was raised.

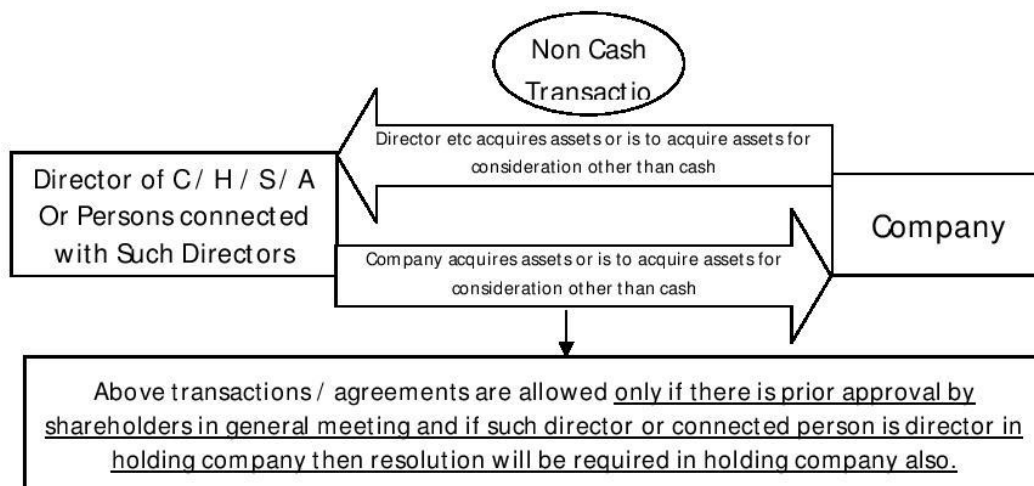
4<sup>th</sup> Comment → Give details of non-compliance & non-utilisation for proper purpose.

Check compliance of requirements of Sec 42



**Clause XIV / 15**

1<sup>st</sup> Comment → Whether there is non-cash transactions with directors or persons connected with him (*Transactions for cash or cash equivalent are not covered / Credit transactions cannot be called non cash / Mergers not covered here subject to approval by court /*  
 2<sup>nd</sup> Comment → If answer to first question is yes then whether there is compliance of section 192

**Clause XVI / 16**

1<sup>st</sup> Comment → whether company supposed to get registered as per requirements of RBI  
 2<sup>nd</sup> Comment → If answer to first question is yes then we are supposed to comment whether registration is obtained and if it is not obtained reason for the same should be specified

1. As on today company should be registered if it is 1<sup>st</sup> NBFC and 2<sup>nd</sup> Net Owned fund is 2 Crores or more.\*\*\*

2. Company will be NBFC if principle business is financing. Now we have to determine whether financing in principle business, as per FAQ issued by RBI we will have to apply 50-50 test. As per this test if financial assets constitute more than 50% of total assets **AND** financial income constitutes more than 50% of total income then principle business is financing. \*\*\*

(No need to specify this example in answer unless specifically asked.)

Eg Fixed Assets 50 lakhs, Non Current Investments 80 lakhs, Current Investments 40 lakhs, Stock 20 lakhs, Debtor 10 lakhs, Cash 45 lakhs, Bank 25 Lakhs, Loans given 200 lakhs.

Sales 10 lakhs, Interest Income 20 Lakhs, Commission earned through financing 15 lakhs.

**Answer**

Total Assets → 50 + 80 + 40 + 20 + 10 + 45 + 25 + 200 = 674

Financial Assets → 80 + 40 + 45 + 25 + 200 = 390

% of financial assets in total assets is  $390 / 674 \times 100 = 57.86\%$

Total Income → 10 + 20 + 15 = 45

Financial Income → 20 + 15 = 35

% of financial income in total income is  $35 / 45 \times 100 = 77.77\%$

As both conditions are satisfied it is a NBFC.

3. Now we should compute net owned fund as per latest balance sheet

Eg Figures in lakhs\*\*\*

<b>PAID UP SHARE CAPITAL</b>	
"Equity" Share Capital	400
(-) Calls in Arrears	(20)
Paid up "Equity" share capital	<u>380</u>
<b>FREE RESERVES</b>	
(+) General Reserves	40
	<u>420</u>
<b>FICTITIOUS ASSETS</b>	
(-) Debit balance of P&L	(10)
(-) Deferred Revenue Expenditure	(5)
(-) Intangible Assets (Eg Goodwill / Patent etc)	(8)
	<u>397</u>
<b>INVESTMENT IN SHARES</b>	
(-) Subsidiary	(15)
(-) Companies of same group	(25)
(-) Other NBFCs	(35)
	<u>322</u>
<b>"Book Value" of DEBENTURES, BONDS, OUTSTANDING LOANS &amp; ADVANCES (INCLUDING HIRE PURCHASE &amp; FINANCE LEASE) &amp; DEPOSITS→</b>	
Subsidiary	50
Companies	20
Total	70
(Please note Other NBFCs not covered as like given above in investment of shares)	
To the extent such amount exceed 10% of (Paid up Capital + Free Reserves)	
i.e $70 - 10\% (420) = 70 - 42 = 28$	(28)
<b>NET OWNED FUNDS</b>	294

As it is above 200 lakhs / 2 cores registration will be required