

Q.1

William & Sons Limited is well-known in the hospitality and the entertainment industry with their chain of hotels, travel agencies etc.

They arrange packaged tours for customers both in India and abroad.

A snapshot of their financials for the previous year ended 31st March, 2021 is given below:

Particulars	Amount in INR Mios	Remarks
Share Capital	5000	Includes fully convertible preference share capital (before 2022) of INR 2000 Mio
Reserves & surplus	200	Includes revaluation reserve of INR 100 Mio
External commercial borrowing	8800	No cover through hedging
Current Assets	2200	Primarily receivables from travel companies who were enjoying credit terms from the company
Current Liabilities	6550	Represents payments to creditors and banks
Property Plant Equipment (incl Goodwill of INR 2200 Mio)	11750	Goodwill has arisen based on the acquisition of hotels

Their business has been severely impacted by COVID-19 pandemic during the period April to June 2020 and the Company has to submit its audited financial statements for the quarter ended 30 June 2020 to its investors. What are the key considerations to be taken into account whilst auditing the financial statements of the Company? [Nov. 20 – Old Syllabus (5 Marks)]

**Ans.: Key Audit Considerations to be taken into account whilst auditing the financial statements:**

The financial statements have various items which would have been affected by the outbreak of COVID-19. In addition to the detailed list of items of financial statements mentioned in the situation, specific accounting issues could arise in the following areas:

1. **Share Capital:**
  - Status of conversion of Preference Share Capital and implication.
2. **Reserve and Surplus:**
  - 50% of the reserve is revaluation reserve which is not free reserve.
3. **External Commercial borrowing:**
  - Repayment capacity.
  - Forex impact.
  - Any restructuring / change in the terms of repayments to be checked.
4. **Current Assets:**
  - **Expected credit losses** on the receivables considering the industry in which the company operates. In the instant case current assets are primarily receivable from travel companies who were enjoying credit terms from the company and impact of Covid-19 on travel agency needs assessment.
  - **Inventory valuation**, if any inventory is lying with the company.
  - **Current ratio** assessment.
5. **Current liabilities:**
  - Repayment capacity.
  - Liquidity position to be analysed.

	<p><b>6. Goodwill</b></p> <ul style="list-style-type: none"> <li>• Impairment assessment.</li> </ul> <p><b>7. Property, Plant and Equipment:</b></p> <ul style="list-style-type: none"> <li>• Impairment assessment.</li> <li>• Change in useful lives/ residual values.</li> </ul> <p>In the given situation, on account of COVID-19 which has been prevailing, the liquidity position of the Company is under distress. The auditor is required to discuss with the management as to how they are perceiving current and the near future position and thereafter assess the effect of estimation uncertainty or the risk assessment and audit evidence supporting these accounting estimates and related disclosures that may be affected by the impact of COVID-19 on the business of the entity and the economic environment. After assessment of the entire condition, the auditor may discuss about the going concern position of the company. The auditor is also required to ensure disclosures to be given in the financial statements are as per ICAI advisory.</p>
Q.2	<p><b>M/s PC &amp; Co., Chartered Accountants are the statutory auditors of various categories of companies and bodies corporate. In exercise of the powers conferred under sub-sections (2) and (4) of section 132, of the Companies Act, 2013 the Central Government made the National Financial Reporting Authority Rules, 2018 (NFRA Rules) (MCA Notification dated 13 November 2018). The audit firm seeks your guidance on the applicability of those categories of companies and bodies corporate which are covered by NFRA Rules. [Nov. 20 – New Syllabus (5Marks)]</b></p> <p><b>Ans.: Companies and bodies corporate which are covered by NFRA Rules:</b></p> <p>As per Rule 3 of NFRA Rules, 2018, NFRA shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service u/s 132(2) or undertake investigation u/s 132(4) of the auditors of the following class of companies and bodies corporate:</p> <ol style="list-style-type: none"> <li>companies whose securities are listed on any stock exchange in India or outside India;</li> <li>unlisted public companies       <ul style="list-style-type: none"> <li>• having paid-up capital of not less than ₹ 500 crores or</li> <li>• having annual turnover of not less than ₹ 1000 crores or</li> <li>• having, in aggregate, outstanding loans, debentures and deposits of not less than ₹ 500 crores as on the 31st March of immediately preceding financial year;</li> </ul> </li> <li>insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of section 1 (4) of the Companies Act, 2013;</li> <li>any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the NFRA by the Central Government in public interest; and</li> <li>a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d) above, if the income or net-worth of such subsidiary or associate company exceeds 20% of the consolidated income or consolidated net-worth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d) above.</li> </ol>
Q.3	<p><b>Under which circumstances the retiring Statutory Auditor of a company cannot be reappointed? [Jan. 21 – Old Syllabus (5Marks)]</b></p> <p><b>Ans.:</b> A retiring auditor cannot be re-appointed at an annual general meeting, if-</p> <ol style="list-style-type: none"> <li>he is disqualified for re-appointment.</li> <li>he has given the company a notice in writing of his unwillingness to be re-appointed; and</li> <li>a special resolution has been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed.</li> <li>Where at any annual general meeting, other auditor is appointed or re-appointed.</li> </ol>

Q.4

Mr. Raj, the engagement partner of R.O.K. & Co., in connection with statutory audit of Waria Ltd., had assigned the responsibility of enquiring into propriety matters of the Company as required by section 143(1) of the Companies Act, 2013, to Mr. Samay, an engagement team member. Mr. Samay while making such enquiries, was having following queries, as tabulated below, which he ought to get resolved from Mr. Raj, as follows:-

Sr. No.	Query of Mr. Samay
1	What documents to be seen in case of loan given by the company in lieu of hypothecation of goods from lender as a security for the purpose of reporting as per clause (a) of section 143(1) of the Companies Act, 2013?
2	What shall be the cost of Debentures and Bonus Shares sold by the company for which the cost is not ascertainable for the purpose of reporting as per clause (c) of section 143(1) of the Companies Act, 2013?
3	Whether the shares allotted by Waria Ltd. against a loan taken by it from a NBFC can be considered to be allotted for cash for the purpose of reporting as per clause (f) of section 143(1) of the Companies Act, 2013?

Assuming that you are Mr. Raj the engagement partner, please provide answer to the queries of Mr. Samay? [MTP – March 21]

**Ans.: Responses to Queries raised by Samay:**

**Query 1: What documents to be seen in case of loan given by the company in lieu of hypothecation of goods from lender as a security for the purpose of reporting as per clause (a) of section 143(1) of the Companies Act, 2013?**

**Response:** Mr. Samay should see deed of Hypothecation or other document creating the charge, together with a statement of stocks held at the balance sheet date in order.

**Query 2: What shall be the cost of Debentures and Bonus Shares sold by the company for which the cost is not ascertainable for the purpose of reporting as per clause (c) of section 143(1) of the Companies Act, 2013?**

**Response:**

**For Debentures sold:** Where the cost of debentures sold is not ascertainable, the book value thereof at the date of sale may be treated as the cost for the purposes of this clause.

**For Bonus Shares sold:** When bonus shares are received, the number of shares in the portfolio would be increased by the bonus shares while the cost of the total portfolio would remain the same as before. The result would be that the average cost per unit of the total holding would come down proportionately. The usual accounting practice for apportioning the cost of a part of the total holding on the sale thereof is to take it at its average cost.

**Query 3: Whether the shares allotted by Waria Ltd. against a loan taken by it from a NBFC can be considered to be allotted for cash for the purpose of reporting as per clause (f) of section 143(1) of the Companies Act, 2013?**

**Response:** The law on the subject has hitherto been that, where the consideration for the issue of shares is an adjustment against a bona fide debt payable in money on demand by the company, the shares are deemed to have been subscribed in cash.

According to the legal opinion obtained by the ICAI, the expression “shares allotted for cash” may also include shares allotted against a debt. Therefore, in cases which are covered by the decision in Spargo’s case, no comment is required by the auditor, even though the company may have in the Return of Allotment u/s 75, shown such shares as allotted against adjustment of a debt. Thus, the shares allotted by Waria Ltd. against a loan taken by it from a NBFC can be considered to be allotted for cash.

Q.5

**RAJUL & Co.” is an Audit Firm having partners “Mr. R”, “Mr. A”, “Mr. J”, “Mr. U” and “Mr. L”, Chartered Accountants. “Mr. R”, “Mr. A”, “Mr. J”, “Mr. U” and “Mr. L” are holding appointment as an Auditor in 4, 5, 6, 10 and 15 Companies respectively.**

- (i) Provide the maximum number of Audits remaining in the name of “RAJUL & Co.”**
- (ii) Provide the maximum number of Audits remaining in the name of individual partner i.e. “Mr. R”, “Mr. A”, “Mr. J”, “Mr. U” and “Mr. L”.**
- (iii) Can RAJUL & Co. accept the appointment as an auditor in 80 private companies having paid-up share capital less than Rs. 100 crore which has not committed default in filing its financial statements under section 137 or annual return under section 92 of the Companies Act with the Registrar, 2 small companies and 1 dormant company?**
- (iv) Would your answer be different, if out of those 80 private companies, 65 companies are having paid-up share capital of ₹ 115 crore each?**

[MTP – April 21]

**Ans.: Ceiling on No. of Audits:**

As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than 20 companies other than OPC, dormant companies, small companies and private companies having paid-up share capital less than ₹ 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar).

As per section 141(3)(g), this limit of 20 company audits is per person. In the case of an audit firm having 5 partners, the overall ceiling will be  $5 \times 20 = 100$  company audits. Sometimes, a Chartered Accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.

**Conclusion:** based on the provisions as stated above, following conclusions may be drawn:

- (i) RAJUL & Co. can hold appointment as an auditor of 60 more companies:

Total Number of Audits available to the Firm	$= 20 \times 5$	$= 100$
Number of Audits already taken by all the partners		
In their individual capacity	$= 4+5+6+10+15$	$= 40$
Remaining number of Audits available to the Firm		$= 60$

- (ii) With reference to above provisions, an auditor can hold more appointment as auditor = ceiling limit as per section 141(3)(g)- already holding appointments as an auditor.

Hence	Mr. R can hold: $20 - 4$	$= 16$ more audits.
	Mr. A can hold: $20 - 5$	$= 15$ more audits.
	Mr. J can hold: $20 - 6$	$= 14$ more audits.
	Mr. U can hold $20 - 10$	$= 10$ more audits and
	Mr. L can hold $20 - 15$	$= 5$ more audits.

- (iii) RAJUL & Co. can hold appointment as an auditor in all the 80 private companies having paid-up share capital less than ₹ 100 crore (private company which has not committed a default in filing its financial statements u/s 137 of the said Act or annual return u/s 92 of the said Act with the Registrar), 2 small companies and 1 dormant company as these are excluded from the ceiling limit of company audits given under section 141(3)(g) of the Companies Act, 2013.

- (iv) RAJUL & Co. is already having 40 company audits and they can accept only 60 more company audits. In addition, they can also conduct the audit of OPC, small companies, dormant companies and private companies having paid up share capital less than ₹ 100 crores. In the given case, out of the 80 private companies RAJUL & Co. is being offered, 65 companies have paid-up share capital of ₹ 115 crore each.

Therefore, RAJUL & Co. can accept the appointment as an auditor for 2 small companies, 1 dormant company, 15 private companies having paid-up share capital less than ₹ 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar.) and 60 private companies having paid-up share capital of ₹ 115 crore each in addition to above 40 company audits already held.

© All rights reserved

**Law stated in this publication is upto 31.10.2020 and is relevant for May 2021 Exams and onwards.**

**Disclaimer:**

Every effort has been made to avoid errors or omissions in this publication. In spite of this, errors may creep in. Any mistake, error or discrepancy noted may be brought to our notice which shall be taken care of in the next edition. No part of this publication may be reproduced or copied in any form or by any means.



**For academic updates and related contents:**

- Join telegram channel: <https://t.me/altclasses>
- Visit knowledge portal of [www.altclasses.in](http://www.altclasses.in)

**For books/class related queries:**

- E-mail: [info@altclasses.in](mailto:info@altclasses.in)
- Ph.: 9319805511

**For academic doubts:**

- E-mail: [cacs.gargpankaj@gmail.com](mailto:cacs.gargpankaj@gmail.com)

**For Online purchase of books/classes:**

- Visit our web portal: [www.altclasses.in](http://www.altclasses.in)