Chapter **10** COMPANY AUDIT

(As per Provisions of the Companies Act, 2013)

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Learning Objectives

- To understand the meaning, elements and types of audit report.
- To analyse the procedure for conducting share capital audit.
- To discuss duties of an auditor regarding issue of initial public offer (IPO)
- To discuss duties of an auditor regarding issue of shares for other than cash consideration.
- To review the duties of an auditor when shares issued at premium or sweat equity.

POINTS TO RECALL RECAP

From the previous chapter we have studied the qualifications and disqualifications of an auditor, removal and resignation of an auditor, rights and powers of an auditor, duties of auditor, and liabilities of auditor.

10.1 Audit Report

Audit report is the final stage of audit process. The results of the audit are communicated through audit report. Audit report is the written opinion of an auditor regarding companies financial statements. Audit report is a document prepared by an auditor to certify the financial position and accounting records of a firm.

10.1.1 Meaning of Audit Report

Audit report is the statement included in the financial statements. It contains the opinion of the auditor in financial statements. The auditor reports to the shareholders who have appointed him. He has to provide his opinion on the truth and fairness of financial statements. Thus, the auditor protects the interest of shareholders through audit report.

10.1.2 Definition of Audit Report

- **Lancaster** has defined a report as "a report is a statement of collected and considered facts, so drawn up as to give clear and concise information to persons who are not already in possession of the full facts of subject matter of the report."
- According to Cambridge Business English Dictionary, Audit report is defined as a formal document that states an auditor's judgment of a company's accounts.

Under Sec. 143(3), auditor of a company must report to its members.

(a) The accounts examined by him;

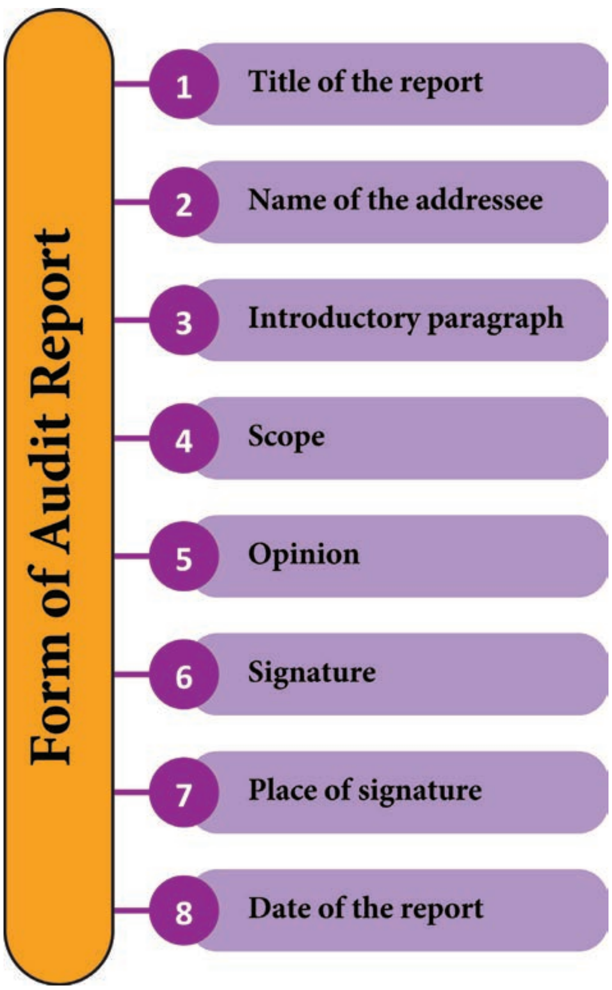
(b) Balance Sheet, Profit and Loss Account, and Cash Flow statement, which are laid in general meeting of a company during his tenure of office; and

(c) The document declared to be attached to the Balance Sheet and Profit and Loss Account.

Audit Certificate

- Audit Certificate vouches the truth of the statement.
- Audit Certificate is the guarantee for accuracy of statement.
- Audit Certificate ascertains the correctness of tangible facts after verification.
- If the audit certificate is with wrong details, the auditor is responsible.
- Audit certificate does not have the scope for suggestion or opinion.

10.1.3 Form of Audit Report



1. Title of the report

The title of audit report should help the reader to identify the report. It should disclose the name of the client. The title distinguishes the audit report from other reports.

2. Name of the Addressee

The addressee normally refers to the person who appoints the auditor. If a company appoints the auditor, the addressee should be shareholders. As per law, the complete address of the addressee is required. Addressee for the statutory audit shall be shareholders and in case of Special Audit, it is Central Government.

3. Introductory Paragraph

The introductory paragraph should specify that it is the auditor's opinion on financial statements audited by him. The period covered by financial statements should be stated with exact dates.

4. Scope

This part should include the matter-of-fact relating to the manner in which audit examination was made. The audit examination should cover company's accounts, Profit and Loss Account, Balance Sheet and Cash Flow Statements. The examination should be as per the relevant law. The auditor should not curtail or limit any examination task.

5. Opinion

The auditor's opinion on the books of account and financial statements examined by him is based on the information and free from bias. The auditor has to give his opinion as follows:

i. Whether the financial statements are arithmetically correct and correspond to the figures recorded in the books of accounts.
ii. In case of unqualified opinion, whether the financial statements represent a true and fair view of the state of affairs and the results of operations.
iii. In case of qualified opinion, if the Balance Sheet and Profit and Loss account do not present a true and fair view, the reasons for qualification (what and where is wrong).

6. Signature

The signature part should include the manual signature of the auditor.The personal name and signature of the auditor should be given. If the auditor is a firm, the signature of the partner and firm name should be given.

7. Place of Signature

This should include the location of the auditor or the auditor firm, which is ordinarily their city.

8. Date of the Report

The date of completion of the audit work should be mentioned in this section.

10.1.4 Contents of Audit Report

As per Sec. 143 of the Companies Act, the auditor's report shall also state—

a. whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;

b. whether, in his opinion, proper books of account as required by law have been kept by the company so far as it appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;

c. whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditor has been sent to him and the manner in which he has dealt with it in preparing his report;

d. whether the company's Balance Sheet and Profit and Loss account dealt with in the report are in agreement with the books of account and returns;

e. whether, in his opinion, the financial statements comply with the Accounting Standards;

f. the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;

g. whether any director is disqualified from being appointed as a director under sub-section (*2*) of section 164;

h. any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;

i. whether the company has adequate internal financial control system in place and the operating effectiveness of such controls;

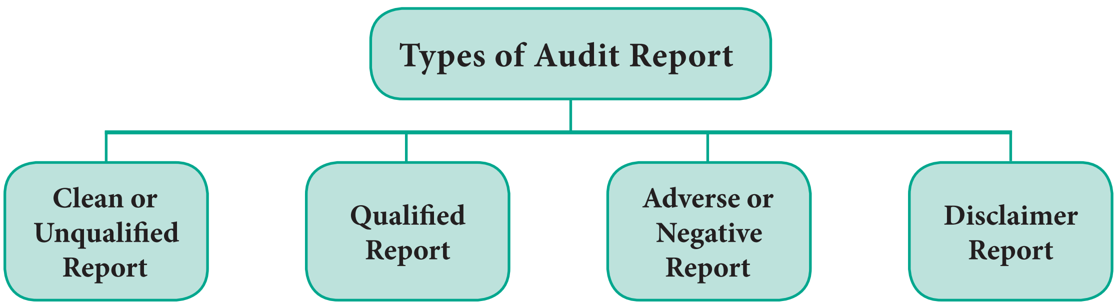
j. such other matters as may be prescribed.

10.1.5. Types of Audit Report

The audit report may be of the following types:

1. Clean or Unqualified Report

Clean or Unqualified report will be given by the auditor if the auditor is satisfied that the accounts, Balance Sheet, Profit and Loss Account and Cash Flow statement do represent a true and fair view and they are prepared in conformity with the accounting principles and statutory requirements.



Specimen of Clean on Unqualified Report

To

The Sharehoders
ABC Ltd. Chennai

We have audited the attached Balance Sheet of ABC Ltd....as at........ and the profit and Loss Account of the company for the year ended on that date and we report that:

1. We have obtained all the information and explanations which are necessary for the purpose of audit.
2. In our opinion, proper books of accounts have been maintained in accordance with the standard accounting practices.
3. The Balance Sheet and Profit and Loss Account are in agreement with the books of accounts and returns.
4. In our opinion, and to the best of our information, the said accounts give the information required and give a true and fair view:
   - In the case of Balance Sheet of the company as at.....; and
   - In the case of Profit and Loss Account of the company for the year ended on that date.

Signatures: For X,Y&Co

Chartered Accountants Partner

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2. Qualified Report

In qualified report the auditor believes that overall financial statements are not fairly stated. The reasons for giving Qualified Report are be as follows:

i. The books of accounts, Profit and Loss Account and the Balance Sheet do not represent the true and fair view of the state of affairs and results of the operations, due to lack of conformity with the accounting principles and statutory requirements,

ii. The auditor is not able to verify the value and existence of certain assets,

iii. The information requested by the auditor is not furnished,

iv. Proper books of account are not maintained as required by law,

v. Part of audit examination done by other auditors.

Specimen of Qualified Report

To

The Sharehoders
ABC Ltd.
Chennai

We have audited the attached Balance Sheet of XYZ Ltd., as at….. and also the Profit and Loss account for the year ended on that date. We report that:

We have received all the information and explanations which are necessary for the purpose of audit.

We conducted our audit in accordance with the auditing standards generally accepted in India.

In our opinion, proper books of accounts as per law have been maintained by the company with the accounting standards and the Balance Sheet and Profit and Loss account gives a true and fair view and subject to the comments given hereunder:

- The stock in trade has been valued at market price, which is higher than the cost by ₹ 50,000.
- The provision for depreciation is not sufficient.
- Amount spent for the repairs of machinery ₹ 2000 has been capitalized and added to the cost of machinery.

Signatures: For X,Y&Co

Chartered Accountants Partner

3. Adverse or Negative Report

When there is sufficient basis for the auditor to form an opinion that the whole accounts and financial statements, do not present a true and fair view of the financial condition and results of operation, the adverse or negative opinion will be given. The adverse or negative report will be given on the following grounds:

i. When the auditor is not satisfied with the truth and fairness of financial statements,
ii. Non conformity with the Generally Accepted Accounting Principles,
iii. Mistakes, discrepancies and material misstatement in the financial statements,
iv. Omission of a material disclosure.

4. Disclaimer Report

The auditor may disclaim or refuse opinion on the accounts, Profit and Loss Account and the Balance Sheet, when he does not have sufficient information to base his opinion. In the scope and opinion paragraph, the auditor should give disclaimer information. This may happen on the following grounds:

i. The auditor has not been able to obtain sufficient information to form his opinion,
ii. The audit examination is not adequate to form an opinion,
iii. There are some material un-determined item in audit examination.

10.1.6 Differences between Unqualified, Qualified and Adverse Audit Report

Basis	Unqualified Audit Report	Qualified Audit Report	Adverse Audit Report
Meaning	Auditor issues a unqualified report where the auditor is fully satisfied with the work of client.	Auditor issues a qualified report where the auditor is not fully satisfied with the work of client.	Auditor issues an adverse report when he does not agree with the affirmation made in the financial statements i.e., accounts disclose a serious distortion.
True and Fair View	The auditor is satisfied that the accounts, Balance Sheet, Profit and Loss Account and Cash Flow statement do represent a true and fair view.	The books of account, Profit and Loss Account and the Balance Sheet do not represent the true and fair view of the state of affairs.	When there is sufficient basis for the auditor to form an opinion that the whole accounts and financial statements, do not present a true and fair view of the financial condition.
Opinion	The auditor gives clean opinion without any reservation.	The auditor gives an opinion subject to certain reservation.	The auditor concludes that based on his examination, he is not satisfied with the affirmation made in the financial statements.

10.2 Audit Of Share Capital

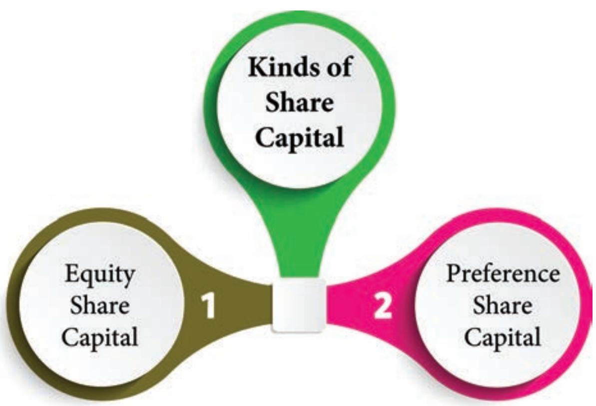
Share capital means capital raised by the company by issue of shares. This issue of share capital should be audited to verify the compliance of requirements and provisions of Companies Act.

10.2.1. Meaning of Share Capital

A company may meet its fund requirements either through raising share capital or through borrowings. The company does a proper financial analysis before taking such a decision. The funds raised through issue of shares is termed as share capital.

10.2.2. Kinds of Share Capital

The share capital of the company is of two kinds, namely Equity share capital and Preference share capital.



1. Equity Share Capital

Equity share capital means all share capital, which is not preference share capital and called as the ordinary share capital of the company.

2. Preference Share Capital

Preference share capital means that part of the issued share capital of the company which either carries or would carry a preferential right with respect to payment of dividend and a preferential right of repayment in case of winding up or repayment of capital. Apart from these two preferential rights, preference shares can be of participating or non-participating type depending upon their right to participate in dividend payment with capital.

10.3 Audit of Share Capital of a New Company (or) Fresh Issue of Shares

The first function of the Company after incorporation was to raise funds. The funds can be raised either by issue of securities or by loan or borrowings. Section 23 of Companies Act, 2013 makes a distinction between public and private company as far as raising funds is concerned.

Section 23 of Companies act, 2013 provides that:

Public company my raise a fund or issue securities, by:

1. Issue of prospectus to public either by Initial Public Offering **(IPO) or** Follow on Public Offer **(FPO)**, or
2. Private placement, or
3. Right issue
4. Bonus issue.

Private companies may raise fund or issue securities, by:

1. Right issue
2. Bonus issue
3. Private placement.

10.3.1. Meaning of Fresh Issue of Shares

Fresh issue of shares refers to the shares issued through Initial Public Offering (IPO).

It means when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for first time to public. Unlisted company is one whose security is not listed on any of the recognized stock exchange.

The underwriter serves as the intermediary between the company seeking to issue shares in an initial public offering (IPO) and investors. The underwriter helps the company to prepare for the IPO, considering issues such as the amount of money sought to be raised, the type of securities to be issued, and the agreement between the underwriter and the company. Syndicate Underwriting is one in which, two or more agencies or underwriters jointly underwrite an issue of securities. Such an arrangement is entered into when the total issue is beyond the resources of one underwriter or when he does not want to block up large amount of funds in one issue. Sub-Underwriting is one in which an underwriter gets a part of the issue further underwritten by another agency. This is done to diffuse the risk involved in underwriting. The name of every under-writer is mentioned in the prospectus along with the amount of securities underwritten by him. Firm Underwriting is one in which the underwriters apply for a block of securities. Under it, the underwriters agree to take up and pay for this block of securities as ordinary subscribers in addition to their commitment as underwriters.

This Initial Public Offering can be made through the fixed price method, book-building method or a combination of both. Under fixed price method, the investors know the price at which the securities are offered and allotted in advance. Book Building is a process used by companies to raise raising capital through Public Offerings-both Initial Public Offers (IPOs) and Follow-on Public Offers (FPOs) to aid price and demand discovery.

Private Placement is issuing share capital to a select group of people, including or not the existing shareholders, like friends, family members, Angel investors, Venture Capitalists etc.

Rights issue is the pro-rata issuance of equity to existing equity shareholders in the company. This results in the advantages such as control in the hands of existing shareholders, prevention of dilution of control and less costly.

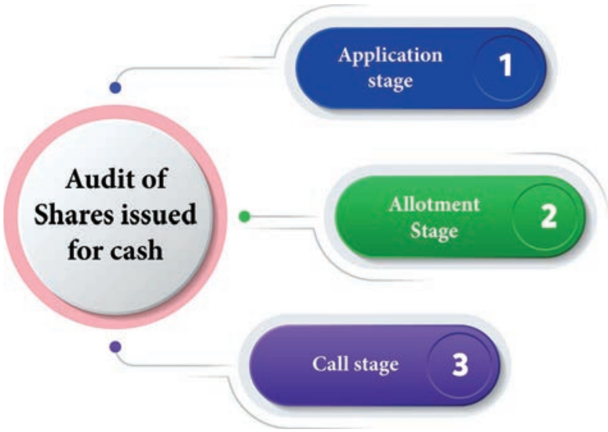
10.3.2. Auditors Duties

The issue of share capital should be audited by the auditor. He should study the conditions relating to the issue of share capital in the Memorandum, Articles of Association, as well as Prospectus and see that these have been duly complied with. A company cannot issue share capital exceeding the amount prescribed in its memorandum though, if its Articles permit, it may increase its authorized capital by altering its Memorandum in a general meeting. Every issue of capital should be properly authorized.

10.4 Audit of Shares issued for Cash

Shares issued for cash can be done in three stages as: (a) Application Stage, where applications were received along with application money; (b) Allotment

Stage, where allotment takes place and allotment money is received subject to the receipt of minimum subscription; (c) Calls stage, where calls are made on shares and the amount due is received.



a. APPLICATION STAGE

1. The auditor should check the original share application. He should check the entries in Application and Allotment Book.
2. He should vouch the application money received with Application and Allotment Book and the corresponding entries in cash book. He should ensure that application money received was deposited in a scheduled bank until the certificate of commencement of business is obtained. He should verify whether application money received is not less than 5% of the nominal value of shares issued.
3. He should vouch the money refunded to unsuccessful applicants with Application and Allotment Book, copies of letters of regret and bank book.
4. He should check the total columns of Application and Allotment Book and see that proper journal entries have been passed in the books.

b. ALLOTMENT STAGE

1. The auditor should see that allotment begins only after the receipt of minimum subscription.
2. He should examine the Directors' Minute Book to see that all the allotments have been approved by the Board.
3. He should compare the copies of Letters of Allotment and Letters of Regret with entries made in the Application and Allotment Book.
4. He should check the amount received on allotment, by comparing Application and Allotment Book with Cash Book.
5. He should check the postings in Share Register of the amount received on application and allotment.
6. He should see that the relevant RBI and FEMA requirements, in case of allotment to non-residents.
7. He should see that appropriate journal entry debiting Share Allotment and crediting Share Capital Account has been duly made.

c. CALL STAGE

1. The auditor should examine the board of director's resolution in the Directors' Minute Book for making calls.
2. He should verify the amount received with the counterfoil of receipts.
3. He should compare the total amount due on calls with the amount collected and entered in the cash book. He should trace out the figures of call-in-arrears by comparing

the 'Schedule of Calls in Arrears with Application and Allotment Book, and check the accuracy of the amount.

4. He should see that appropriate journal entry debiting Calls Account and crediting Share Capital Account has been duly made.

10.5 Audit of shares issued for consideration other than cash

Shares may also be issued for consideration other than cash. Vendors, promoters, underwriters, etc.may be allotted shares instead of making payments to them. The audit procedure followed in this regard involves examining the contract, board of director's resolution, checking the journal entries and examining the prospectus.

10.5.1. Meaning

Shares issued for consideration other than cash may arise where a company issues shares to vendors of business against purchase consideration; or to promoter's who have borne preliminary expenses, or to underwriters against settlement of under-writing commission, etc.

10.5.2. Auditors Duties

1. Examination of Contracts

Copy of contracts entered into with vendors, promoters, underwriters, etc. should be examined by the auditor to ensure that the allotment is made as per the agreements. The amount of purchase consideration for the vendors, nature and amount of consideration for the promoters, remuneration to underwriters would be mentioned in their respective agreements.

2. Examination of Prospectus

He should examine the Prospectus to ensure that conditions lay down such as details of the amount payable to the vendors, promoters, and underwriters and the mode of payment.

Section 2(70) of the Companies Act, 2013 defines a Prospectus as "any document described or issued as a prospectus and includes a red herring prospectus referred to in section 32 or shelf prospectus referred to in section 31 or any notice, circular, advertisement or other document inviting others from the public for the subscription or purchase of any securities of a body corporate."

"SHELF PROSPECTUS" means a prospectus in respect of which the securities or class of securities included therein issued for subscription in one or more issues over a certain period without the issue of a further prospectus.

"RED HERRING PROSPECTUS" means a prospectus, which does not include complete particulars of the quantum or price of the securities included therein.

3. Verify Directors Minute Book

The auditor should examine the Minutes of the Board of Directors to ensure that the allotment is authorized by the Board.

4. Verify Entries in Books

The auditor should see that the journal entry is in order. He should verify Share capital account as shown in the ledger to ascertain that share allotments are posted in the ledger accounts.

e. Compliance with Legal Provisions

The auditor should verify the return filed with the Registrar of Companies to ensure that return is filed in accordance with the provisions of the Act.

10.6 Audit of Shares Issued at Premium

Share premium can be defined as the excess amount received by the company over and above the face value of shares. All types of companies can issue shares at premium.The auditor should examine the Prospectus, the Articles and the Minutes of the Directors to see whether the issue of shares at a premium is duly authorized or not. He should see that the sum available has been utilized in the manner as laid down by the Articles.

10.6.1. Meaning of Shares Issued at Premium

Share premium means the shares are issued at an amount in excess of the nominal value of the shares. Section 52, of the Companies Act, 2013 states that, if a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a Share Premium Account. The auditor should examine the Articles, Minutes of Board meetings to see whether issue of shares at a premium is duly authorized.

10.6.2. Auditors Duties for Issue of Shares at Premium

The auditor should see that the amount of share premium is utilized in the manner laid down in Section 52. The share premium account may be used by the company only for –

1. Issuing fully paid bonus shares to the members of the company.
2. Writing off preliminary expenses or commission paid or discount allowed on any issue of shares or debentures of the company.
3. Providing for the premium payable on the redemption of any redeemable preference shares of the company.
4. Buying back own shares, if Articles permits it and authorized by special resolution passed in general meeting.

Audit of Sweat Equity Shares

Shares issued at a discount means the issue of shares at the price less than its face value. The auditor should verify whether the issue of shares at discount is as per the Section 53 and 54, of the Companies Act, 2013.

10.7 Audit of Sweat Equity Shares (Issue at Discount)

10.7.1 Meaning

According to Section 53, a company shall not issue shares at a discount, except in the case of an issue of sweat equity shares given under Section 54, of the Companies Act, 2013. Sweat Equity share means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called. If a company contravenes the provisions of this section, it shall be punishable with a fine not less than one lakh rupees but it may extend upto five lakhs. Moreover, the official in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees, or with both.

10.7.2. Auditors Duties

The auditor should see whether the following conditions are fulfilled in case of Sweat Equity Shares:

1. The issue should be authorized by a special resolution. The number of shares, current market price, consideration to be received, if any, and the class of directors, employees to whom the shares will be issued should be specified in the special resolution.
2. Only after expiry of at least one year from the date of commencement of company's business, these shares can be issued.
3. If shares of the company are listed on the stock exchange, issue of sweat equity shares should be in accordance with regulations made by SEBI.

STUDENTS ACTIVITY

1. Collect and go through the Audit Report of Public Sector Undertakings of Government of Tamil Nadu from the website of Comptroller and Auditor General of India. (www.cag.gov.in)
2. Collect the information relating to IPO by HDFC AMC.
3. Collect a prospectus of a company and refer issue of shares and discuss.
4. Collect a memorandum of association and discuss the share capital clause.
5. Collect a articles of association and refer the mode of issue of share capital and discuss.

Find out the total equity capital of Reliance Industries Limited for the year 2017-18 by going through its annual report for the year 2017-18. (Visit the website for collecting the annual report: http://www.ril.com/InvestorRelations/FinancialReporting.aspx)

SUMMARY

- Audit report is the statement containing the opinion of the auditor on the representations made by company management in financial statements and matters relevant to them.
- Title of the report, name of the addressee, introductory paragraph, scope, opinion, signature, place of signature and date of the report are the elements of Audit report.
- Clean report or unqualified report, Qualified report, Adverse or negative report and Disclaimer are the types of audit report.
- The auditor should study the conditions relating to issue of share capital in the Memorandum, Articles of Association, as well as Prospectus and see that these have been duly complied with.
- In case of shares issued for cash, there are three stages (a) Application Stage, where applications were received along with application money; (b) Allotment Stage, where allotment takes place subject to the receipt of minimum subscription; (c) Calls stage, where calls are made on shares and the amount due is received.
- Shares may also be issued for consideration other than cash. Vendors, promoters, underwriters, etc may be allotted shares instead of making payments to them.
- Share premium means the shares are issued at an amount in excess of the nominal value of shares. The auditor should see that the amount of share premium is utilized in the manner laid down in Section 52.
- According to section 53, a company shall not issue shares at a discount, except in the case of an issue of sweat equity shares given under section 54, of the Companies Act, 2013.

KEY TERMS

- **Public Company:** According to the Companies Act, 2013 "A Public company is a company which is not a private company and has a minimum paid up capital of 5 lakh rupees and have the right to transfer of shares of a company". The Public Limited company has "Ltd" at the end of its name.
- **Private Company:** According to the Companies Act, 2013 "A Private company is a company which has a minimum paid-up capital of 1 lakh rupees and which is restricted to have the right to transfer of share".The Private Limited company has "Pvt.Ltd" at the end of its name.
- **Authorised Capital:** The authorised capital of a company is the maximum amount of share capital for which shares can be issued by a company.

- **Minimum Subscription:** The minimum shares the company needs to get from the public out of the total issue by the date of closure. (Presently every company need to raise 90% of the issued amount).
- **Promoters:** A promoter conceives an idea for setting-up a particular business at a given place and performs various formalities required for starting a company.
- **Underwriters:** A syndicate of banks (the lead managers) underwrites the transaction, which means they have taken on the risk of distributing the securities.
- **Sweat Equity:** Sweat share means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions.
- **Prospectus:** A prospectus is a legal document issued by companies that are offering securities for sale, including the details of the company and the issue.
- **Memorandum of Association:** A Memorandum of Association (MOA) is a legal document prepared in the formation and registration process of a limited liability company to define its relationship with shareholders.
- **Articles of Association:** is a document which states the rules and regulations of the internal affairs of the company. It is the by-laws of the company.
- **Preliminary Expenses:** Preliminary expenses are those expenses which are incurred in business before incorporation and commencement of business. Example : statuary fees ,company logo, survey report, Charges paid to charter accounting firm before forming a company.

EVALUATION

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I. Multiple Choice Questions

1. The report given by the auditor reveals a true and fair view of a company is ________
   a. Unqualified report
   b. Qualified report
   c. Interim report
   d. Final report

2. Where an auditor gives an opinion on the various matters without any reservations, it is known as
   a. Clean report
   b. Qualified report
   c. Adverse report
   d. Negative report

3. If auditor gives a qualified report, following consequences will result:
   a. Board of Directors have to resign.
   b. Central Government may impose a fine on directors
   c. The recognised stock exchange on which company's shares are listed would revoke listing.
   d. The Board of directors has to give reply to such qualifications in its Board's report.
4. The company auditors present the audit report to :
   a. Board of director
   b. Company registrar
   c. Central Government
   d. Shareholders
5. A good audit report must at least meet one of the following qualifications ________.
   a. it should offer constructive and timely suggestions to the management.
   b. it should not point out mistakes.
   c. it should not be based on factual information.
   d. it should not be based on Balance Sheet.
6. Who is responsible for the appointment of statutory auditor of a limited company?
   a. Directors of the company
   b. Members of the company
   c. The Central Government
   d. All of the above
7. When restrictions that significantly affect the scope of the audit are imposed by the client, the auditor generally should issue which of the following opinion?
   a. Qualified opinion
   b. Disclaimer of opinion
   c. Adverse opinion
   d. Unqualified report with 'an emphasis of matter' paragraph;
   d. All of the above
8. In case the auditor gives a disclaimer of opinion in the audit report which of the following paragraph(s) of a standard unqualified audit report are modified?
   a. Scope paragraph
   b. Opinion paragraph
   c. Scope and opinion paragraphs
   d. introductory, scope and opinion paragraph
9. Ordinary shares are also called:
   a. Equity Shares
   b. Founder's Shares
   c. Deferred Shares
   d. Preference Shares
10. Share may be issued ________
    a. at par
    b. at premium
    c. at discount
    d. all the above.
11. A copy of the ________ must accompany each from of application for shares offered to the public.
    a. Memorandum of Association
    b. Prospectus
    c. Articles of Association
    d. All of the above

12. The persons who take the risk of issuing shares are known as:
    a. Directors
    b. Promoters
    c. Shareholders
    d. Underwriters

13. Which of the following is the modern approach of fixation of issue price of shares?
    a. Fixed price method.
    b. Mark-to-Market method.
    c. Book Building method.
    d. None of the above

14. Which of the following is/ are advantage(s) of Rights issue?
    a. Control in the hands of existing shareholders.
    b. Less costly
    c. No dilution in existing value of shares.
    d. All of the above.

15. Which of the following is a feature of sweat equity shares?
    a. These are only to its directors or employees.
    b. They are issued only for acquisition of tangible assets.
    c. They are by nature of debentures.
    d. All of the above

16. Which of the following is **not** included in the provisions for issue of shares at a premium?
    a. Special resolution must be passed in General meeting of the company.
    b. Premium received must be transferred to "Securities Premium Account"
    c. Amount of share premium can be utilized for issuing fully paid bonus shares.
    d. Amount of share premium can be utilized for writing of preliminary expenses.

17. ________ means the total amount of called up share capital which is actually paid to the company by the members.
    a. Authorised Capital
    b. Issued Capital
    c. Called up Capital
    d. Paid up Capital

18. ________ means the amount that is stated in the memorandum of a company to be the maximum amount of share capital of the company.
    a. Authorised Capital
    b. Issued Capital
    c. Called up Capital
    d. Paid up Capital

Answer: 1.(a), 2.(a), 3.(d), 4.(d), 5.(a), 6.(b), 7.(a), 8.(c), 9.(a), 10.(d), 11.(a), 12.(d), 13.(c), 14.(d), 15.(a), 16.(a), 17.(d), 18.(a)

II. Very Short Answer Questions

1. What do you mean by audit report?
2. What is clean report?
3. What is qualified report?
4. Mention the purposes for which securities premium account can be utilised.
5. Mention any two duties of auditor regarding issue of sweat equity shares.

III. Short Answer Questions

1. When can a qualified audit report be given?
2. What are the kinds of share capital?
3. Discuss the auditors' duty with regard to issue of shares at a premium.
4. Under what circumstances the shares can be issued for the consideration other than cash?
5. State the various stages in which shares can be issued.

IV. Essay Type Questions

1. What are the basic elements of an auditor's report? Explain.
2. Explain the types of audit report.
3. Discuss the procedure for the audit of shares issued for cash.
4. As an Auditor, how will you verify shares issued for consideration other than cash.
5. Discuss the procedure for audit of shares issued for consideration other than cash.
6. What is meant by Sweat Equity Shares. Discuss the duties of an Auditor.

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3. Auditing Practical (As per Companies Act, 2013), L. Natarajan, Margham Publications.