Regarding ca ipcc auditing exam, true or false are big asset for students. Students can easily get 20 marks out of 100 marks. So concentrate on true or false in auditing.

1 time writing = 5 times reading

MAY- 2013 AUDITING EXAM

1. **PQR Ltd. includes underwriting commission and stamp duty as preliminary expenses.**

   FALSE:: Preliminary expenses are all expense **relating to the formation of an enterprise** such as registration fees, cost of printing of documents, legal fees etc. No expense other than those constituting preliminary expenses are included under this head e.g. brokerage, underwriting commission and stamp duty. So practice of PQR Ltd is not correct.

2. **AGM is not held in time the auditor automatically vacates his office**.

   FALSE: Section 224 (1) makes it amply clear that an auditor shall hold appointment **from the conclusion of one AGM to the conclusion of the next AGM.** If AGM is adjourned; tenure of auditor will be extended till the conclusion of adjourned meeting.

3. **Selling and distribution cost included in the cost of inventory**.

   FALSE: As per AS-2 on Inventory Valuation cost of inventory includes purchase cost, duties & taxes (If not recoverable), Carriage inward, Freight inward and Conversion cost (Direct labour & Factory overhead). Administration overhead and Selling & Distribution overhead are not considered in the cost of inventory.

4. **Internal check is the part of internal control system**

   TRUE: The internal control also includes the system of **internal check and internal audit.** So Internal check is the part of internal control system

5. **Company can provide lower rate depreciation than prescribed by schedule XIV of the Companies Act 1956**.

   FALSE: As per the expert advisory committee of the ICAI, the rate as contained in schedule XIV of the Companies Act 1956 should be viewed as minimum rate, **and therefore the company will not be permitted to charge depreciation at lower rate than those specified in the schedule XIV**. However, on the basis of bona fide technological evaluation, higher rate is justified, then may be provided with proper disclosure by way of note forming part of annual accounts.

6. **Compliance procedures are tests designed to obtain audit evidence as to completeness, accuracy and validity of data produced by accounting system**.

   FALSE: Compliance procedures are tests designed to obtain reasonable assurance that **those internal controls on which audit reliance is to be placed are in effect.** Compliance tests are conducted in areas governed by the internal control e.g. Purchase, Sales etc. Completeness, accuracy and validity of data produced by accounting system are tested by performing Substantive procedures.

7. **ABC Ltd having turnover of Rs. 100 Crore during FY 2011-2012, need not get its branch audited whose turnover is Rs. 1.5 Crore during the same year**.

TRUE: As per Companies (Branch Audit Exemption) Rules, 1961, when exemption is to be considered based on quantum of activity, branch will be exempted from audit if average of the quantum of activity during the relevant financial year **does not exceed (i.e either equal to or less than) rupees two lakhs or two per cent of the average of the total turnover of the company including all its branches and other offices and the earnings from services rendered and from any other source during the same period whichever is higher.** In the present case turnover of the branch is Rs. 1.5 Crore which is less than Rs 2 Crore (2% of Turnover of the company). So Branch of ABC Ltd is exempted from audit.

8. **Computer software which is the integral part of the related hardware can be treated as intangible assets or fixed assets?**

   TRUE: As per AS 26 (Intangible Assets) if tangible asset cannot operate without intangible element then both the tangible and intangible element should be considered as fixed assets under AS-10. In the present problem it is clearly provided that computer software is the integral part of related hardware so software will be considered as fixed assets.

9. **CARO 2004 does not apply to a foreign company**.

   FALSE: As per the provision of CARO, **it also applies to a foreign company** which is defined under section 591 of the Companies Act 1956.

MAY- 2010 AUDITING EXAM

10. **While conducting audit of Government Companies, the auditors are paid their Professional Fees as prescribed by the Government.**

    False: As per Sec. 224(8), in case of an auditor appointed under section 619 by the C&AG that is for Govt. companies, auditors remuneration shall be fixed by the company in general meeting or in such manner as the company in general meeting may determined

11. **The auditor compares entries in the books of accounts with vouchers and if two agrees, his work is done**.

    False: The main objective of audit as per SA 200A is to express opinion on financial statements. To express opinion he needs to collect evidence in the form of source documents to form conclusion. Thus comparing entries helps auditors to move ahead

12. **Confirmations received by the auditor directly from third parties are conclusive evidence in support of a transaction**.

    False: As per SA 500 (Revised) audit evidence in many cases is persuasive and not conclusive. The best audit evidence is a theoretical concept and is not available in audit situations. The auditors normally relies on prima - facie persuasive evidence

13. **Audit Committee is to be formed by each and every company and the auditor has no compulsion to attend the meeting of the Audit Committee**.

    False: According to section 292A, every listed company having paid up share capital of not less than INR five crores should have an audit committee. The auditors, the internal auditors and the direct in charge of finance shall attend and participate in the meetings of the audit committee but shall not be entitled to vote there at meeting

14. **A company cannot declare dividends without providing for depreciation**.

True: As per Sec. 205 of the companies act, no dividend can be paid unless present as well as arrears of depreciation have been provided for out of profits of company

15. **A special resolution is required by company to authorise issue of shares at discount**.

    False: As per Section 79 of the Companies Act, 1956, the issue of shares at discount is authorized by an ordinary resolution passed by the company at its general meeting and sanctioned by the Central Government. The resolution specifies the maximum rate of discount. The rate of discount shall not exceed 10% unless allowed by the Central Government, in special circumstances. Therefore there is no need to pass Special Resolution for this purpose.

16. **When an auditor identifies a Misstatement resulting from fraud, it is his responsibility to communicate it to the regulatory and enforcement authorities apart from those charged with governance**.

    True: When the auditor identifies a misstatement resulting from fraud or error. He should communicate that information to the appropriate level of management on a timely basis .Consider the need to report such matters to those charged with governance and if required to regulatory and enforcement authorities. .The auditor should communicate to the management any material weakness in internal control related to the prevention or detection of fraud and error, which has come to his attention as a result of the performance of the audit

17. **The auditor should study the Memorandum and Articles of Association to see the validity of his appointment**

    False: The Auditor need not study MoA & AoA but he has to ensure compliance of Sec 224, 224A & Sec 225

18. **The Investments made by the company in Government Securities like NSC, Government Bonds, etc, should be kept in personal custody of financial Controller of the Company**.

    False: The investments made by the company in govt. securities like NSC, Government bonds etc. shall be held by the entity itself or may be held by others in some cases example may be held in DMAT form or by banks etc. But it shall not be kept in the personal custody of the financial controller

19. **The company in which 15% of subscribed capital is held by State financial Corporation and 10% of Subscribed capital is held by General Insurance Co., the appointment of auditor can be done by passing a general resolution at annual general meeting**.

    False: Refer Section 224A

NOV- 2009 AUDITING EXAM

20. **While auditing the accounts of a company, it is obligatory that the auditor must adopt sampling technique**

    False: The extent of checking to be undertaken is primarily a matter of judgement of the auditor; there is nothing statutorily stated anywhere which specifies what work is to be done, how it is to be done and to what extent. Hence it is not obligatory that the auditor must adopt sampling techniques.

21. **Interim dividend is not a part of Dividend**.

    False: Interim Dividend is a part of dividend.

22. **A casual vacancy caused by resignation of the auditor can be filled by the BoD**

    False: Casual vacancy caused by resignation of an auditor, can be filled by the company in General Meeting. [Section 224(6)]

23. The auditor, in the interest of the users, while explaining the nature of his reservation, can describe the work of the expert with his name in the audit report without obtaining prior consent of the export.

False: As per SA 620 "Using the work of an expert", where the auditor considers it appropriate to disclose the identity of the expert, he should obtain prior consent of the expert for such disclosure if such consent has not already been obtained.

24. The audited firm has no right to compel the auditor to provide copies of the working papers

True: As per SA 230 (Revised), unless otherwise specified by law or regulation, audit documentation is the property of the auditor. He may at his discretion, make potions of, or extracts from, audit documentation available to clients, provided such disclosure does not undermine the validity of the work performed.

25. Comptroller and Auditor General of India can be removed by the Prime Minister of India on the recommendation of his Council of Ministers

False: C&AG can be removed from office only when each house of parliament decides to do so by a majority of not less than two third of members of house present and voting.

26. Provisions of Companies (Auditor's Report) Order, 2003 as amended upto date, apply to clubs, chambers of commerce, research institutes, etc. which have been established under Section 25 of the Companies Act, 1956.

False: False, provisions of CARO, 2003 does not apply over a company licensed to operate under Section 25 of the Companies Act, 1956

27. Mr. X, a Chartered Accountant, is an employee of M/s M & N Co., a firm of Chartered Accountants of India. The firm is the Auditors of ABC & Co. Ltd. After auditing the accounts of the Company the Auditor firm allowed Mr. X, their employee, to sign the audit report; which he did.

False: As per Sec. 229 of the Companies Act, 1956, a person appointed as auditor of the company, or where a firm is so appointed, only a partner in the firm practising in India, may sign the auditor's report, or sign or authenticate any other document of the company required by law to be signed or authenticated by the auditor.

28. The Auditor disagreed with the managemen t with regard to the acceptability of the Accounting Policies and the inadequacy of disclosures in the financial statements and issued a disclaimer

False: As per SA 700 "The Auditors Report on financial Statements", where an auditor is disagreed with the management with regard to acceptability of the Accounting Policies and the inadequacy of disclosures in the financial statements, based on the materiality auditor should express qualified or adverse report

29. Analytical procedures are unable to help the Auditor in determining the nature, timing and extent of other audit procedures at the planning stage.

False: SA 520 "Analytical Procedure" states that application of analytical procedures helps the auditor to find the aspects of the business of which he was unaware and it will also assist him in determining the nature, timing and extent of audit procedures.

30. A Company which has been unable to negotiate borrowings from its bankers claims that it will be able to continue as a 'going concern'

True: As per SA 570 "Going Concern" a company which has been unable to negotiate borrowings from its bankers may continue as going concern because of other mitigating factors that may exist for example, management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets or obtaining additional capital.

31. The overall objective of audit changes in Computer Information System (CIS)environment.

False: The overall objective of audit does not change in a CIS Environment

JUNE- 2009 AUDITING EXAM

32. The principle of confidentiality precludes auditor to disclose the information about the client to third party at all circumstances without any exception.

False: The auditor can disclose information obtained only when there is a legal or professional necessity or under a specific authority from the client

33. Auditing in depth implies that the auditor vouches almost all transactions in a manner that the chances of not checking any transaction are left at minimum.

False: It means examination of a few selected transactions from beginning to end, through the entire flow of transactions.

34. Taking management representation is a convenient, economical and equally acceptable auditing method even where the direct access by auditor to audit evidence is possible.

False: Management certificates are justifiable when the subject matter is not capable of direct verification by the auditor.

35. An auditor of a company in which not less than 25% of authorized capital is held by public financial institution is to be appointed by a special resolution in general meeting.

False: Not less than 25% should be of Subscribed share capital and not authorized share capital

36. It is no part of subsequent auditor's duty to verify opening balances of ledger accounts of current years, on the basis of Balance Sheet audited by Previous Auditor.

False: Subsequent auditor should obtain sufficient appropriate evidence that the closing balances of the preceding period have been correctly brought forward to the current period

37. AAS 25 on 'Comparatives' is applicable to corresponding previous year's figures and not to comparative financial Statements.

False: AAS 25 (SA-710) deals with the situations when comparatives are presented either by way of corresponding figures or as comparative financial statements.

38. AS 10 "Accounting for fixed assets" is also applicable to wasting assets like quarries, minerals and oil and natural gas.

False: AS 10 specifically excludes wasting assets including mineral rights, expenditure on exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources.

39. When Government grants are received in the form of assets such as land, plant and equipments etc.,free of cost, then, such assets should be entered in the books of accounts at nominal value.

True: Non-monetary grants are recorded at nominal value for the purpose of identification

40. Fixed deposits held with bank by a company are shown under the head investments in Balance Sheet as per the requirements of Part I Schedule VI to the Companies Act, 1956.

False: Fixed deposits are shown under the head 'Bank Balances' as per Schedule VI of the Companies Act. 1956

41. A branch auditor is a joint auditor according to AAS 12 and his relationship with the company auditor is governed by the said Standard.

False: It does not deal with the relationship a company auditor appointed under section 224 and a branch auditor appointed under section 228

42. Disclaimer of opinion is issued when an auditor confronts a different stand by management in respect of a material issue which auditor does not approve of.

False: A disclaimer of opinion report is given when the auditor is unable to form an overall opinion about the matters contained in the financial statements

MAY- 2008 AUDITING EXAM

43. Procedural error arises as a result of transactions having been recorded in a fundamentally incorrect manner

False: Errors of omission and commission constitute procedural errors. If a transaction is basically recorded in the books in an incorrect manner, it is an error of principle

44. When inherent and control risks are low, an auditor can accept a lower detection risk.

False: When inherent and control risk are low, an auditor can accept a higher detection risk and still reduce risk to an acceptable lower level.

45. Audit procedure and audit techniques are not one and the same thing

True: Procedures represent the broad frame of manner of handling the audit work. They may comprise a number of techniques. Techniques refer to the methods employed carrying out the procedures.

46. An auditor can be appointed as first auditor of a newly formed company simple because the name has been stated in AoA

False: An auditor cannot be appointed as first auditors of a newly formed company just because his name is mentioned in AoA. (Section 224(5) of the Companies Act)

47. AAS 24 deals with responsibility of the auditor of the services organization

False: SA 402 (AAS 24) deals with audit considerations relating to entities using service organisations, and not responsibility of auditor of service organization itself.

48. Interest accrued but not due on secured loans is required to be shown under appropriate sub heads under the head "secured Loans".

False: Interest accrued but not due on secured loans should be shown under appropriate subheads under the head 'current liabilities". (Part-1, Schedule VI of the Companies Act, 1956)

49. For the purpose of AAS 10, principal auditor means the partner of a firm, signing the audit report.

True: The person signing the audit report is considered as the Principal Auditor, even thought the audit is conducted by other partner of the audit firm.

50. The terms funds and reserves can be used interchangeably

False: Reserve is merely an appropriation of the profit while fund is an allocation of the available cash in hand

51. An expert for the purpose of AAS 9 is a person, firm or association of persons possessing special skill, knowledge and experience in auditing

False: An expert for the purpose of SA 620 (AAS 9) is a person, firm or association of persons possessing special skill, knowledge and experience in a particular field other than accounting and auditing.

52. CARO 2004 is applicable to the audit of branch of a company except where the company is exempt from the applicability of the order.

True: CARO 2004 is applicable to the audit of branch of a company except where the company is exempt from the applicability of the order

53. A joint auditors are jointly and severally responsible for the work, which is not divided and carried on jointly by all the joint auditors.

True: SA 299 states that all joint auditors are jointly and severally responsible for the work, which is not divided and carried on jointly by all the joint auditors.

54. Compliance procedures are test designed to obtain audit evidence as to completeness, accuracy and validity of the data produced by accounting system

False: Compliance procedures are audit tests designated to obtain a reasonable assurance as to reliability of internal control system

NOV- 2008 AUDITING EXAM

55. Secret reserves strengthen the financial Position, hence they are allowed

False: It is not possible to create Secret Reserve in the case of companies because the auditor's report will disclose the existence of any secret reserve.

56. Capital profits realized in cash may be distributed as dividend, provided the articles do not prohibit, hence profit on reissue of Forfeited shares may be distributed as dividend.

True: Profits on reissue of forfeited shares can be distributed as dividend but the following conditions regarding dividend out of capital profits should be fulfilled:

(a) the profits of the company have been realized in cash

(b) they remain as profits even after revaluation of all assets and liabilities, and

(c) the AoA of the company does not prohibit the company for the purpose.

57. SA 580 (Revised) is related to Audit Materiality.

False: SA 580 (Revised) is related to Representations by Management, the procedure to be applied in evaluating, documenting management representation, and action if the management refuses to issue a Management Representations whereas Audit Materiality is given in SA 320 (Revised).

58. The auditor of a company is entitled to attend any general meeting of the company as his duty

False: Auditor has the right to receive notices and to attend general meetings of the company. (Sec 231). To attend a general meeting is not the duty of the auditor but it is a right. All information relating to any general meeting of the company which any member of the company is entitled to have sent to him are required to be forwarded to the auditors of a company.

59. An auditor may be removed from the office before the expiry of his term by the company in the general meeting

True: Sec 224(7) of the Companies Act, 1956, provides that 1st auditor appointed by the BoD can be removed by the company at a general meeting before the expiry of his term. The other auditors of the company can be removed at the general meeting but prior approval of central Government is required.

60. Audit working papers to be kept at least for three years

False: Audit Working papers should be kept at least for 10 Years. The Auditor is required to retain his working papers for a period of time sufficient to (a) meet the needs of his practice, and (b) satisfy any pertinent legal or professional requirements of record retention. The ICAI has recommended that an Auditor should maintain his records relating to Audit and other work done including routine correspondence and other papers for a minimum period of 10 years. The Limit of 10 years is only the minimum period if there is no legal or professional proceedings pending in respect of those records/working papers.

The requirements as to the period of retention of the Audit Working Papers would be applicable for other audits also, i.e., Audits of Private Companies, Partnership Firms, trusts etc.

61. Management certificate obtained by the auditor is enough for verification of inventories.

False: As per Guidance Note on Audit of Inventories, the Auditor should examine the stock records with reference to relevant supporting document such as Goods received note, Inspection report, Material issue notes, Bin cards etc. However, when the inventories are material and auditor places reliance upon physical verification of management, he should attend the stock-taking. Therefore only reliance upon management certificate is not enough for verification of inventory.

62. The environment in which internal control operates has no relationship with the effectiveness of the specific control procedure.

False: The environment of the internal control to a great extent plays an important role in determining the effectiveness of Specific control procedure. The environment in which internal control operates has an impact on the effectiveness of the specific control procedures. The control environment means the overall attitude, awareness and actions of directors and management regarding the internal control system and its importance in the entity.

63. When the auditor uses more professional judgement, the degree of inherent risk is lower.

False: Inherent Risk is the susceptibility of an account Balance or class of transactions to misstatement that could be material, either individually or when aggregated with misstatements in other balances or classes, assuming that there were no related internal Controls. To assess inherent risk, the Auditor should use professional judgement to evaluate numerous factors, having regard to

- His experience of the entity gained from previous audit engagements
- Any controls established by the management to compensate for a high level of inherent risk
- His knowledge of any significant change, which might have taken place since the last assessment Hence, while the auditor uses, more professional judgement, the degree of inherent risk has no role because inherent risk and auditor's judgement has no relationship.

64. Auditor is not an insurer.

True: Auditor is not an insurer because the objective of audit is to express an opinion as to the true and fair view of the financial statement. The user should however not assume that this opinion is as assurance as to future viability of the enterprise or the efficiency or the effectiveness with which the management has conducted the affairs of the enterprise. The scope of the audit is determined by the terms of engagement, requirement of the relevant legislation and the pronouncement of ICAI

MAY- 2007 AUDITING EXAM

65. CA Mr. X is the auditor of PQ Ltd, in which one of his relatives is having substantial interest. Mr. X is qualified to be an auditor.

False: CA Mr. X is not qualified to be an auditor of PQ Ltd. (CA Amendment Act, 2006).

66. Auditor's lien on his client's books and record is not unconditional.

True: The auditor can exercise his lien on client's books and records subject to the following conditions:

- Document retained must belong to the client who owes the money
- Such documents must have come into auditor's possession with the client's authority
- Some work must have been done and fees for work performed must be outstanding.

67. An adverse report is one where an auditor gives an opinion subject to certain reservation

False: An adverse report is given when the auditor concludes that based on his examination he does not agree with the affirmation made in the financial statements.

68. Cut-off procedures are generally applied to trading transactions

True: They cover the areas of purchases, sales, inventories to ensure that transaction of one year do not get recorded in the following year or preceding year to ensure 'matching' and true and fair view of the accounts.

69. Components of Audit Risk do not include sampling risk.

True: The three components of audit risk are Inherent risk, Control risk and Detection risK

70. As per AS-13, Investment should be classified into Current investments and Marketable investments.

False: As per AS-13, Investments are classified into current and long term investment. Marketable investments are short term and classified as current

71. CARO does not apply to a Foreign Company.

`False: CARO applies to all companies including foreign companies except Banking, Insurance, Section 25 Companies and Private Ltd. Companies subject to certain conditions

72. Test checks refer to the out of routine checks that are carried out in the normal course of audit.

False: Test checks refers to an audit procedure wherein only a pat is checked to form an opinion instead of checking all the transactions

73. If the auditor believes that the concern will not continue as going concern, he should issue disclaimer of opinion.

False: As per SA 570 (AAS-16), if the auditor believes that going concern assumption is inappropriate and the entity will not be able to continue its operation in future, he should express an adverse opinion.

74. An unexplained decrease in the Gross profit ratio may result due to fictitious sales.

False: A fictitious sale will increase the gross profit ratio instead of decreasing it. G.P. Ratio normally comes down if there are unrecorded sales or fictitious purchase or decrease in closing stock.

75. If the auditor appointed at the AGM refuses to accept the same, the Company can appoint another person by holding General Meeting.

False: This is not a casual vacancy. Since the newly appointed auditor has refused to accept the appointment, no appointment can be said to have been made at the AGM. under section 224(3) of the Companies Act, 1956, the power vests with the Central Govt. to make the appointment

76. An auditor is considered to lack independence, if the partner of the audit firm owns the building in which the client's business is situated.

False: According to the Guidance Note issued by the ICAI on 'Independence of Auditors',Independence implies that the judgment of a person is not subordinate to the wishes or directions of another person who might have engaged him or to his own self-interest. In this case of Renting of building to the client does not affect the independence

77. As per AAS-2, one of the objectives of the audit is to detect fraud

False: As per SA 200 (AAS-2), objective of an audit is to express an opinion on financial statements to help the users of the financial statements to determine the true and fair view

NOV- 2007 AUDITING EXAM

78. There is a direct relationship between detection risk and combined level of inherent and control risk.

False: There is inverse relationship between detection risk and combined level of inherent and control risk. When inherent and control risk are high, detection risk needs to be low to reduce overall audit risk.

79. The first auditor appointed by the BoD can be removed by the board at its subsequent meeting

False: The first auditor appointed by the BoD may be removed at general meeting of the shareholders and not meeting of the BoD.

80. AAS-9 is applicable when an auditor seeks legal opinion from an advocate.

True: SA 620 (AAS 9) on using the work of an expect applies when the auditor seeks opinion/reports of an expert on any audit matter. Therefore SA 620 (AAS 9) is applicable when an auditor seeks legal opinion from an advocate.

81. If internal control is satisfactory, external evidence is more reliable than internal evidence.

False: In the case of satisfactory internal control system, internal evidence is more reliable since the situation will reveal appropriate evidence. (Refer SA 500 - Revised)

82. Internal auditor of the company cannot also be its cost auditor.

True: As per notification issued by the DCA, cost auditor should not be the internal auditor of a company for the period for which he is conducting the cost audit. If the cost auditor is also the internal auditor, he would not be able to discharge his duties properly.

83. One of the techniques used for gathering evidence is substantial review.

False: One of the techniques used for obtaining evidence is analytical review procedure, which consists of studying significant ratios & trends. (Refer SA 500 - Revised)

84. Government companies are also to be considered for the ceiling on number of audits.

True: In calculating the audit units, only audit of corporations, which are not companies and foreign Companies are not included. Thus Government companies will be considered for ceiling on number of audits. (Section 224(1B) of the Companies Act, 1956)

85. If appointment of a person as an auditor is void-ab-initio, it should be treated as a casual vacancy

False: If appointment of a person as an auditor is void-ab-initio, it should not be treated as a casual vacancy, rather this would give rise to powers of the central government to fill the vacancy under section 224(3) of the Companies Act, 1956.

86. A company running a departmental store and having total turnover of INR 100 crores during the financial year 2006-07, need not get its branch audited whose turnover is INR 1.90 crores during the same year

True: As per rules to section 228(4) of the companies (Branch Audit exemption) Rules 1961, where the aggregate value of goods sold by a branch office does not exceeds INR 2 lakhs or 2% of the average of the total turnover of the company, whichever is higher, the branch shall be exempted from audit. Hence the branch in question is not required to be audited.

87. Where the accounts of the company do not present a "true and fair" view, the auditor should express disclaimer of opinion.

False: An adverse opinion is appropriate where the reservations or the objections are so substantial that the auditor feels that the accounts do not give a true and fair view. In this situation the auditor should give an adverse or negative opinion only.

88. If there is difference of opinion among the joint auditors with regard to any matter, majority joint auditors' opinion will prevail while reporting

False: where the joint auditors are in disagreement with regard to any matter to be covered by the audit report each one of them should express his own opinion through a separate report. (Refer SA 299).

89. Surplus on the re-issue of forfeited shares standing to the credit of share forfeited account can be distributed as dividend.

True: The surplus on reissue of forfeited shares is credited to capital reserve account being a capital profit. Capital profit realized in cash, authorized by the articles and remains surplus after revaluation of all assets and liabilities can be distributed as dividend. (Lubbock v The British Bank of South America)

90. XYZ Ltd. Co. gave a donation of INR 50,000 each to a Charitable Society running a school and a trust set up for the service of Blinds during financial year ending on 31st March, 2009. The average net profits of the company for the last three years were 15 lakhs.

Hint: As per section 293, BoD cannot contribute to charitable and other funds not directly relating to the business of the company or the welfare of its employees, any amounts the aggregate of which will, in any financial year, exceed 50,000 or 5% of its average net profits as determined in accordance with the provisions of sections 349 and 350 during the three financial years immediately preceding, whichever is greater. In the instant case, BoD has contributed more than 5% of the average net profits as determined in accordance with the provisions of Section 349 and 350 during the last three years, which works out to INR 75.000 and **therefore contravenes the provisions of section 293 of the Companies Act.**