

**INTERMEDIATE EXAMINATION****SET - 1****MODEL QUESTION PAPER****TERM – DECEMBER 2023****PAPER – 10****SYLLABUS 2022****CORPORATE ACCOUNTING AND AUDITING****Time Allowed: 3 Hours****Full Marks: 100**

The figures in the margin on the right side indicate full marks.

SECTION – A**1. Multiple Choice Questions:****[15 x 2 = 30]**

- (i) Partly paid-up preference shares can be redeemed _____.
- After the permission from company law board
 - After making them fully paid up
 - After passing a special resolution
 - After the permission from BOD
- (ii) Given Paid up Share Capital ₹10 lakhs & Free Reserves ₹2 lakhs what is the maximum amount permissible for buy back of shares _____.
- ₹2,00,000
 - ₹2,50,000
 - ₹2,80,000
 - ₹3,00,000
- (iii) Installment of principal amount of long term loan payable within next 12 months is show under Balance sheet of a company under the heading _____.
- Non-Current Assets
 - Non-Current liabilities
 - Current Assets
 - Current liabilities
- (iv) Net Profit for the year is ₹15,000, interest received in advance on 1.1.21 is ₹2,000 and on 31.12.21 is ₹3,000 cash from operation will be _____.
- ₹16,000
 - ₹22,000
 - ₹13,000
 - ₹15,000
- (v) Date of bill: 5.01.22, period 5 months, rate of discount is 8% p.a. What is rebate on bills discounted if accounting year ends on 31.3.22?
- ₹852.46
 - ₹818.85
 - ₹873.22
 - ₹825.45
- (vi) Audit procedure to obtain audit evidence includes _____.
- Compliance procedure
 - Substantive procedure
 - Both A & B
 - Neither A or B
- (vii) Test checking requires application of _____.
- Mathematical theory
 - sampling theory
 - Geometry theory
 - Stakeholder's theory



CORPORATE ACCOUNTING AND AUDITING

- (viii) Which of the following is not a content of audit report as per CARO _____.
- Inventory
 - Acceptance of Deposit
 - Recruitment of employees
 - Repayment of loan
- (ix) A cost auditor submits his report along with reservations observations in form NO. ____.
- CRA1
 - CRA2
 - CRA3
 - CRA4
- (x) Secretarial audit is covered under _____.
- Section 204
 - Section 148
 - Section 139
 - Section 141
- (xi) SA 210 standards for _____.
- Audit planning
 - Audit working paper
 - Agreeing the terms of Audit Engagement
 - Audit Documentation
- (xii) Internal audit is mandatory for every unlisted public company having paid up share capital of _____.
- ₹100 crores
 - ₹50 crores
 - ₹500 crores
 - ₹200 crores
- (xiii) Auditor not to render certain services under section _____.
- 139
 - 144
 - 142
 - 145
- (xiv) Any casual vacancy in a government company is filed by CAG within _____ days.
- 15 days
 - 30 days
 - 45 days
 - 60 days
- (xv) Which of the following is not a part of rural self-governance system in India?
- Gram Panchayat
 - Gram Parishad
 - Panchayat samithi
 - Zilla parishad

SECTION-B

Answer any 5 questions out of 7 questions given. Each question carries 14 marks,

**CORPORATE ACCOUNTING AND AUDITING**

2. (a) B limited was formed with an authorized capital of 2 lakh equity share of ₹10 each on 1st October 2021. 1 lakh shares were issued as fully paid to the vendor and 80000 were offered for public. ₹2.50 per share were payable on application, ₹2.50 on allotment, ₹2.50 on 1st call due on 1st December and ₹2.50 on Final call due on 1st March 2022. On the shares subscribed by the public there had been paid on 30th September 2022 the following:
- on 60000 shares the full amount called
 - on 18000 shares ₹7.50 per share
 - on 500 shares ₹5 per share
 - on 1500 shares ₹2.50 per share
- on 30th September 2022 the directors forfeited the shares on which less than ₹7.50 had been paid.

The calls in arrears on 18000 shares were collected on 31st October 2022 together with necessary interest. The forfeited shares were reissued on the same date at ₹8 per share.

Pass necessary journal entries in the book of company.

[7]

- (b) Ratan & Co Ltd issued 10000 shares of ₹100 each at a Premium of ₹20 per share. The entire issues were underwritten as follow:

A	5000 shares	Firm underwriting 1000 shares
B	3000 shares	Firm underwriting 500 shares
C	2000 shares	Firm underwriting 500 shares

Shares applied for were 9000 shares. The following being the marked forms - A 3500 shares, B 1400 shares, C 1600 shares including firm under writing.

Compute the liability of each underwriter and compute how much commission will each underwriter get assuming it is the maximum allowed by law?

[7]

3. Following are the balances of A Ltd. as on 31.03.2022

Debit	₹	Credit	₹
Premises	30,72,000	Equity share capital	40,00,000
Plant	33,00,000	12% debentures	30,00,000
Stock	7,50,000	Surplus A/C	2,63,000
Debtors	8,70,000	Bills payable	3,70,000
Goodwill	2,50,000	Creditors	4,00,000
Bank	4,52,000	General reserves	2,50,000
Calls in arrears	75,000	Sales	4,15,000
Interim dividend paid	6,00,000	Bad debts Provision	35,000
Purchases	18,50,000		
wages	7,71,000		
General expenses	74,000		
Salaries	2,03,000		
Bad debts	21,000		
Debenture interest paid	1,80,000		

**INTERMEDIATE EXAMINATION****SET - 1****MODEL QUESTION PAPER****TERM – DECEMBER 2023****PAPER – 10****SYLLABUS 2022****CORPORATE ACCOUNTING AND AUDITING**

	124,68,000		124,68,000
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Additional information:

- (i) Depreciate plant by 10%;
- (ii) Half-year debenture interest is due;
- (iii) Create 5% Provision on Debtors for bad debts;
- (iv) Provide for income tax @ 35%;
- (v) Stock on 31.3.2022 is ₹9,50,000;
- (vi) No final dividend is declared by company;
- (vii) Transfer the minimum required amount to general reserve;
- (viii) Ignore corporate dividend tax.

Prepare the Final Accounts of the company.

[14]

4. (a) On 31.03.2022 Loan A/c in the books of a bank showed a debit balance of ₹3 lakhs including ₹24,000 due from a merchant which is doubtful. The interest accrued on loan upto 31.03.2022 was ₹15,000 including ₹3,000 on doubtful debts. The merchant become insolvent and the official receiver paid a dividend of 50 paise in a rupee on 30.04.2022.

Pass necessary Journal entries relating to the Merchant Loan A/c which is doubtful in the books of the bank on 31.03.2022 and 30.04.2022 and prepare a Merchant Loan A/c. **[7]**

- (b) An LIC company disclosed a fund of ₹20 lakhs and the Balance Sheet total is ₹45 lakhs as on 31.03.2022 before taking the following into consideration.

- (i) A claim of ₹10,000 was intimated and admitted but not paid during the year.
- (ii) A claim of ₹6,000 outstanding in the books for 8 years is written back.
- (iii) Interest on securities accrued ₹800 but not received during the year.
- (iv) Rent of the own building occupied ₹2,000.
- (v) Premium of ₹600 in payable under re-insurance.
- (vi) Re-insurance recoveries ₹26,000.
- (vii) Bonus utilized in reduction of premium ₹10,000.
- (viii) Agents commission to be paid ₹8,000.

Re-compute the fund & show the balance sheet total after making the above adjustments. **[7]**

5. (a) M Ltd Equity Capital of ₹40 lakhs consisting of fully paid equity shares of ₹10 each. The net Profit for the year 2021-22 was ₹60 lakhs. It has also issued 36000, 10% convertible debentures of ₹50 each. Each debenture is convertible into 5 equity shares. The tax rate applicable is 30%.

Compute Basic EPS and Diluted EPS. **[7]**

- (b) On 31.08.2022 the BOD of M Ltd. proposed dividend of 10% for the year 2021-22. Financial Statement of 2021-22 are approved by the BOD on 30.09.2022. Discuss the accounting treatment of the proposed dividend as per Ind AS-10. **[7]**

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- | | | |
|-----------|---|------------|
| 6. | (a) Distinguish between Internal control, Internal check and Internal audit. | [7] |
| | (b) Explain the provisions of Companies Act 2013 regarding Audit Committee. | [7] |
| 7. | (a) Discuss the matters to be included in audit report as per CARO-2020. | [7] |
| | (b) Describe the role of NFRA in auditing. | [7] |
| 8. | (a) Demonstrate as an auditor how can you audit a co-operative society. | [7] |
| | (b) Discuss the audit procedure essential for inventories. | [7] |

**INTERMEDIATE EXAMINATION****SET - 1****MODEL ANSWER****TERM – DECEMBER 2023****PAPER – 10****SYLLABUS 2022****CORPORATE ACCOUNTING AND AUDITING****Time Allowed: 3 Hours****Full Marks: 100**

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**CORPORATE ACCOUNTING AND AUDITING**

- (viii) Which of the following is not a content of audit report as per CARO _____.
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a. Gram Panchayat
b. Gram Perishad
c. Panchayat samithi
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Answer:

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)
b	d	d	a	a	c	b	c	c	a	c	a	b	b	b



CORPORATE ACCOUNTING AND AUDITING

SECTION-B

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Compute the liability of each underwriter and compute how much commission will each underwriter get assuming it is the maximum allowed by law?

[7]

Answer:

(a)

Date	Particulars	Dr. (₹)	Cr. (₹)
Oct 1 st	Sundry Assets A/c Dr To Vendor A/c	10,00,000	10,00,000
Oct 1 st	Vendor A/c Dr To E.S. cap. A/c	10,00,000	10,00,000
Oct 1 st	Bank A/c Dr To E.S app & allot A/c	2,00,000	2,00,000
Oct 1 st	E.S app & allot. A/c Dr To E.S. Cap. A/C	4,00,000	4,00,000
Oct 1 st	Bank A/c Dr	1,96,250	



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MODEL ANSWER

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CORPORATE ACCOUNTING AND AUDITING

	To E.S app & allot .A/c		1,96,250
Dec 1 st	E.S 1st call A/c Dr To E.S cap. A/c	2,00,000	2,00,000
Dec 1 st	Bank A/c Dr. 1st Call arrears A/c Dr. To E.S 1st Call A/c	1,95,000 5,000	2,00,000
March 1 st	E.S 2nd Call A/c Dr To E.S cap A/c	2,00,000	2,00,000
March 1 st	Bank A/c Dr 2nd call arrears A/c Dr. To E.S 2nd Call A/c	1,50,000 50,000	2,00,000
Sep 30 th	ESC A/c Dr. To Calls in arrears To E.S app & allot A/c To Shares forfeited A/c	20,000	10,000 3,750 6,250
Oct 31 st	Bank A/c Dr. To Calls in arrears A/c To Int. On calls in arrears A/c	46,500	45,000 1,500
Oct 31 st	Bank A/c Dr. S. forfeited A/c Dr. To E S C A/c	16,000	4,000 20,000
Oct 31 st	S. Forfeited A/c Dr. To Cap. Res. A/c	2,250	2,250
March 31 st	Int. on Calls in arrears A/c Dr. To P & L A/c	1,500	1,500

(b)

Particulars	A	B	C
Gross liability in shares	5000	3000	2000
(-) Un marked app. [2500 X 5: 3:2]	1250	750	500
Balance	3750	2250	1500
(-) Marked app	3500	1400	1600
Balance	250	850	-100
(-) Surplus of c to A & B in GL ratio 5:3	63	37	100
Net liability in shares	187	813	0
(+) Firm underwriting	1000	500	500
Total liability	1187	1313	500

Commission will be @ 5% of the issue price of shares under written as shown below.

$$A = \frac{5000 \times 120 \times 5}{100} = 30000$$

$$B = \frac{3000 \times 120 \times 5}{100} = 18000$$

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$$C = \frac{2000 \times 120 \times 5}{100} = 12000$$

3. Following are the balances of A Ltd. as on 31.03.2022

Debit	₹	Credit	₹
Premises	30,72,000	Equity share capital	40,00,000
Plant	33,00,000	12% debentures	30,00,000
Stock	7,50,000	Surplus A/C	2,63,000
Debtors	8,70,000	Bills payable	3,70,000
Goodwill	2,50,000	Creditors	4,00,000
Bank	4,52,000	General reserves	2,50,000
Calls in arrears	75,000	Sales	4,15,000
Interim dividend paid	6,00,000	Bad debts Provision	35,000
Purchases	18,50,000		
wages	7,71,000		
General expenses	74,000		
Salaries	2,03,000		
Bad debts	21,000		
Debenture interest paid	1,80,000		
	124,68,000		124,68,000

Additional information:

- (i) Depreciate plant by 10%;
- (ii) Half-year debenture interest is due;
- (iii) Create 5% Provision on Debtors for bad debts;
- (iv) Provide for income tax @ 35%;
- (v) Stock on 31.3.2022 is ₹9,50,000;
- (vi) No final dividend is declared by company;
- (vii) Transfer the minimum required amount to general reserve;
- (viii) Ignore corporate dividend tax.

Prepare the Final Accounts of the company.

[14]

Answer:

Statement of Profit & Loss for the year ending 31.3.2022 of A Ltd.

Income

Particulars	₹
Revenue from operation	41,50,000
Other incomes	-
Total revenue	41,50,000

**INTERMEDIATE EXAMINATION****SET - 1****MODEL ANSWER****TERM – DECEMBER 2023****PAPER – 10****SYLLABUS 2022****CORPORATE ACCOUNTING AND AUDITING****Expenses**

Particulars		₹
Purchases	18,50,000	
Change in Inventory	(2,00,000)	16,50,000
Employee benefits WN(1)		9,74,000
Finance cost WN(2)		3,60,000
Dep & Amortization WN(3)		3,30,000
Other Exp. WN(4)		1,03,500
Total Exp.		34,17,500
P.B Tax		73,200
(-) Pro. for tax@35%		2,56,375
P.A tax		4,76,125

WN (1) E. Benefits.

Particulars	₹
Wages	7,71,000
Salaries	2,03,000
	9,74,000

WN (2) F. Cost

Particulars	₹
Deb. Int. paid	1,80,000
(+) o/s Int	1,80,000
	3,60,000

WN (3) Dep & Amortization:

Dep. on P&M $33,00,000 \times 10\% = \mathbf{3,30,000}$

WN (4) other Exp.

Particulars	₹	₹
Bad debt	21,000	
(+) RBD $870000 \times 5\%$	43,500	
(-) RBD (old)	35,000	
		29,500
General Exp.		74,000
		1,03,500

**INTERMEDIATE EXAMINATION****SET - 1****MODEL ANSWER****TERM – DECEMBER 2023****PAPER – 10****SYLLABUS 2022****CORPORATE ACCOUNTING AND AUDITING****Balance Sheet of A Ltd as on 31.3.2022**

Particular	W. Notes No.	Amount (₹)
I. Equity & liabilities		
SHF		
Share Capital	A	39,25,000
Reserves & surplus	B	3,89,125
Non-Current liabilities		
Long term borrowing	C	30,00,000
Current liabilities		
Trade Payable		
Creditor 4,00,000		
Bills Payable 3,70,000		77,00,000
Other current liabilities	D	1,80,000
Short term provisions	E	2,56,375
Total		85,20,500
II Assets		
Non Current Assets		
Tangible Assets	F	60,42,000
Intangible Assets	G	2,50,000
Current Assets		
Inventories		9,50,000
Trade receivable	H	8,26,500
Cash & Cash Equivalents		4,52,000
Total		85,20,500

WN(A) Share Capital

Particulars	₹
Equity Share Capital	40,00,000
(-) Calls in arrears	75,000
	3,92,500

WN(B) Reserves & Surplus

Particulars	₹	₹
General Reserve	2,50,000	
Surplus Bal. on 01/4/19 2,63,000		
(+) NP during the year 4,76,125		
(-) Interim dividend 6,00,000		1,39,125

WN (C) Long Term Borrowing

Particulars	₹
12% Debentures	30,00,000

**INTERMEDIATE EXAMINATION****SET - 1****MODEL ANSWER****TERM – DECEMBER 2023****PAPER – 10****SYLLABUS 2022****CORPORATE ACCOUNTING AND AUDITING****WN(D) Other Current Liabilities**

Particulars	₹
O/S int. on debentures	1,80,000

WN(E) Short Term Provisions

Particulars	₹
Pro. For Tax	2,56,375

WN(F) Tangible Assets

Particulars	₹
Premises	30,72,000
P & M 33,00,000	
(-)dep. 3,30,000	29,70,000
	60,42,000

WN(G) Intangible Assets

Particulars	₹
Goodwill	2,50,000

WN(H) Trade Receivables

Particulars	₹
<u>Debtors</u>	8,70,000
(-) 5% RBD	43,500
	8,26,500

4. (a) On 31.03.2022 Loan A/c in the books of a bank showed a debit balance of ₹3 lakhs including ₹24,000 due from a merchant which is doubtful. The interest accrued on loan upto 31.03.2022 was ₹15,000 including ₹3,000 on doubtful debts. The merchant become insolvent and the official receiver paid a dividend of 50 paise in a rupee on 30.04.2022. Pass necessary Journal entries relating to the Merchant Loan A/c which is doubtful in the books of the bank on 31.03.2022 and 30.04.2022 and prepare a Merchant Loan A/c. [7]
- (b) An LIC company disclosed a fund of ₹20 lakhs and the Balance Sheet total is ₹45 lakhs as on 31.03.2022 before taking the following into consideration.
- (i) A claim of ₹10,000 was intimated and admitted but not paid during the year.
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 - (iii) Interest on securities accrued ₹800 but not received during the year.
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 - (v) Premium of ₹600 in payable under re-insurance.
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 - (vii) Bonus utilized in reduction of premium ₹10,000.
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Re-compute the fund & show the balance sheet total after making the above adjustments. [7]



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CORPORATE ACCOUNTING AND AUDITING

Answer:

(a)

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31/03/22	Merchants loan A/c Dr. To Int. Suspense A/c	3,000	3,000
30/04/22	Cash A/c Dr. To Merchant's loan A/c	13,500	13,500
30/04/22	Interest Suspense A/c Dr. To Merchant's loan A/c To Interest A/c	3,000	1,500 1,500
30/04/22	Bad debts A/c Dr. To Marchant's loan A/c	12,000	12,000

Merchant Loan Account

Dr.

Cr.

Date	Particulars	₹	Date	Particulars	₹
31/03/22	To Balance b/d	24,000	31/03/22		
	To Intents Suspense A/c	3,000		By Bal. C/d	27,000
	A/C	27,000			27,000
1/04/22	To Balance b/d	27,000	30/04/22		
				By Cash	13,500
				By Int. Suspense	1,500
				By Bad debts	12,000
		27,000			27,000

(b) Re-Computation of Life Assurance fund

Particulars	₹
Balance of L.A fund on 31/3/22	20,00,000
(+) o/s Claim written back	6,000
Accrued Interest	800
Claims covers under reinsurance	26,000
Bonus utilized in reduction of premium	10,000
	20,42,800
(-) Claims intimated & admitted	10,000
Premium payable under reinsurance	600
Commission payable to agents	8,000
Bonus in reduction of premium	10,000
	(28,600)
Correct balance of L.A fund	20,14,200



CORPORATE ACCOUNTING AND AUDITING

Balance Sheet as on 31.3.22

Liabilities		Amount ₹	Assets	Amount ₹
B/S total as given		45,00,000	B/S total as given	45,00,000
(+) Increase in L.A Fund (20,14,200-20,00,000)		14,200	Accrued intents o/s claims receivable	800 26,000
o/s claims	10,000			
(-) o/s claims	6,000	4,000		
O/S Premium Payable		600		
O/S Commission payable		8,000		
		45,26,800		45,26,800

5. (a) M Ltd Equity Capital of ₹40 lakhs consisting of fully paid equity shares of ₹10 each. The net Profit for the year 2021-22 was ₹60 lakhs. It has also issued 36000, 10% convertible debentures of ₹50 each. Each debenture is convertible into 5 equity shares. The tax rate applicable is 30%. Compute Basic EPS and Diluted EPS. [7]
- (b) On 31.08.2022 the BOD of M Ltd. proposed dividend of 10% for the year 2021-22. Financial Statement of 2021-22 are approved by the BOD on 30.09.2022. Discuss the accounting treatment of the proposed dividend as per Ind AS-10. [7]

Answer:

- (a) (i) $\text{Basic EPS} = \frac{60L}{4 \text{ Lakhs ES}} = ₹15 \text{ per ES}$
- (ii) Int. Exp. that need not be paid after conversion $36000 \times ₹50 \times 10\% = ₹1,80,000$
- (iii) Income tax exp. $(₹1,80,000 \times 30\%) = ₹54,000$
- (iv) Adj. NP to ESH $₹60,00,000 + ₹1,80,000 - ₹54,000 = ₹61,26,000$
- (v) No. of ES resulting from conversion of debentures
 $= 36000 \text{ Debentures} \times 5 = 180000 \text{ Equity Shares}$
- (vi) Total No. of Equity Shares after conversion $= 4,00,000 + 1,80,000 = 5,80,000$
- (vii) $\text{Diluted EPS} = \frac{612600}{580000 \text{ ES}} = ₹10.56 \text{ per ES}$

- (b) Proposed dividends is an event occurring after the Balance Sheet date. The company does not have any liability to pay dividend on B/S date. The reason being dividend will be a liability to the company only when it is approved by the members of the co.in AGM.
 As there are no conditions existing on 31.3.22 the subsequent proposal of dividend is not adjusting event hence the co. should not make a provision for the same.
 As Per Ind. AS. proposed dividend should be disclosed in the notes to accounts separately.

**INTERMEDIATE EXAMINATION****SET - 1****MODEL ANSWER****TERM – DECEMBER 2023****PAPER – 10****SYLLABUS 2022****CORPORATE ACCOUNTING AND AUDITING**

6. (a) Distinguish between Internal control, Internal check and Internal audit. [7]

(b) Explain the provisions of Companies Act 2013 regarding Audit Committee. [7]

Answer:

(a)

S. No.	Point of Distinction	Internal Audit	Internal Control	Internal Check
1.	Mode of checking	In an internal audit system, each component of work is checked.	In internal controls systems, work of one person is automatically checked by another.	It operates in routine to doubly check every part of a transaction at the time of occurrence and recording of the same
2.	Objective	Its objective is to evaluate the internal control system and to detect frauds and errors.	Its objective is to ensure adherence to management policies, safeguarding of assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records.	Its objective is to ensure that no one employee has exclusive control over any transaction or group of transactions and their recording in the books
iii.	Point of Time	In an internal audit system, work is checked after it is done.	In an internal control system, checking is done simultaneously with the conduct of work. Every transaction is checked as soon as it is entered.	Methods of recording transactions are devised where work of an employee is checked continuously by correlating it with the work of others.
iv.	Thrust of system	The thrust of internal system is to detect errors and frauds.	The thrust of internal check system is to prevent errors	The thrust of internal control lies in fixing of responsibility and division of work to avoid duplication.
v.	Cost Involvement	In an internal audit system, work is checked specially; therefore, cost is involved in addition to accounting	The system proves to be costly in case of small businesses because a greater number of employees are engaged	It is a part of internal control and a method of division of work, therefore does not add to the cost.



CORPORATE ACCOUNTING AND AUDITING

vi.	Report	The internal auditor submits his report to the management	Internal Controls provide for built in MIS reports	The summary of day-to-day transactions work as report for the senior.
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(b) A. **Formation of Audit Committee:** As per Section 177(1) read with Companies (Meetings of Board and its Powers) Rules, 2014, the Board of directors of every listed company and the following classes of companies shall constitute an Audit Committee of the Board-

- (i) all public companies with a paid-up capital of ten crore rupees or more;
- (ii) all public companies having turnover of one hundred crore rupees or more;
- (iii) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more.

B. **Composition:** The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority: Moreover, majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement. [Section 177(2)]

C. **Broad Functions of Audit Committee:** As per Section 177(4) of the Act, The Board shall specify, in writing, the terms of reference for the Audit Committee which shall, inter alia, include —

- (i) the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
- (ii) review and monitor the auditor's independence and performance, and effectiveness of audit process;
- (iii) examination of the financial statement and the auditors' report thereon;
- (iv) approval or any subsequent modification of transactions of the company with related parties;
- (v) scrutiny of inter-corporate loans and investments;
- (vi) valuation of undertakings or assets of the company, wherever it is necessary;
- (vii) evaluation of internal financial controls and risk management systems;
- (viii) monitoring the end use of funds raised through public offers and related matters.

D. **Power of Audit Committee**

(a) **Committee may ask for Auditor's Comment:** The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, the observations of the auditors and review of financial statement before their submission to the Board. The Committee may also discuss any related issues with the internal and statutory auditors and the management of the company. [Section 177(5)]

(b) **Investigation:** The Audit Committee shall have authority to investigate into any matter in relation to the items specified in Section 177(4) or referred to it by the Board. For this purpose, the Committee shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company. [Section 177(6)]

**CORPORATE ACCOUNTING AND AUDITING**

- (c) **Board's Report and Audit Committee:** The Board's report under sub-section (3) of section 134 shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor. [Section 177(8)]
- (d) **Whistle Blowing Policy:** Every listed company and company accepting public deposits or borrowing in excess of fifty crore rupees from banks and financial institutions shall establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed. [Section 177(9)]
- (e) **Safeguards against Victimization:** The vigil mechanism under sub-section (9) shall provide for adequate safeguards against victimization of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases. The company shall disclose establishment of such mechanism on its website, if any, and in the Board's report. [Section 177(10)]

7. (a) **Discuss the matters to be included in audit report as per CARO-2020.** [7]

(b) **Describe the role of NFRA in auditing.** [7]

Answer:

(a) **A. Notification**

The Ministry of Corporate Affairs, Government of India notified Companies (Auditor's Report) Order 2020 on 25th February, 2020. This order was issued in supersession of Companies (Auditor's Report) Order 2016. Accordingly, CARO 2020 is applicable for all statutory audits commencing on or after 1st April, 2021 corresponding to the financial year 2020-21

B. Eligible Companies

It shall apply to every company including a foreign company as defined in clause (42) of Section 2 of the Companies Act, 2013 (18 of 2013) [hereinafter referred to as the Companies Act], except –

- (i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- (ii) an insurance company as defined under the Insurance Act, 1938 (4 of 1938);
- (iii) a company licensed to operate under section 8 of the Companies Act;
- (iv) a One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and
- (v) a private limited company, not being a subsidiary or holding company of a public company, having a paid-up capital and reserves and surplus not more than one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.

C. Matters to be Included in Auditor's Report

**CORPORATE ACCOUNTING AND AUDITING****Non-current Assets [Clause 3(i)]**

- a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment and full particulars of intangible assets;
- b) whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; and whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;
- c) whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company. If not, provide the details thereof in the prescribed format.
- d) whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;
- e) whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements.

Inventory [Clause 3(ii)]

- a) whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate;
- b) whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets;

Investment, Providing Guarantee/security, Granting Loan or Advances [Clause 3(iii)]

- a) whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so, -
 - (i) whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity
- b) whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;
- c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
- d) if the amount is overdue, state the total amount overdue for more than ninety days,

**CORPORATE ACCOUNTING AND AUDITING**

- e) whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties,

Loan to Director and Investment by the Company [Clause 3 (iv)]

In respect of loan, investment, guarantees and security, whether provisions of Sections 185 and 186 of the Companies Act, 2013 have been complied with.

Acceptance of Deposits [Clause 3 (v)]

In case the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of Sections 73 to 76 or any other relevant provisions of the New Act and the rules framed thereunder.

Maintaining Cost Records [Clause 3 (vi)]

Where maintenance of cost records has been specified by the Central Government under sub-section (l) of Section 148 of the New Act, whether such accounts and records have been made and maintained.

Statutory Dues [Clause 3 (vii)]

- a) Is the company regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income tax, sales tax, wealth tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities? And if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.
- b) In case dues of income tax or sales tax or wealth tax or service tax or duty of customs or duty of excise or value added tax or cess have not been deposited on account of any dispute, then the amount involved

Disclosure of Unrecorded Income [Clause 3 (viii)]

Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961

Repayment of Loan [Clause 3 (ix)]

- a) whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported
- b) whether the company is a declared wilful defaulter by any bank or financial institution or other lender;
- c) whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;
- d) whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;

Utilisation of IPO/ Further Public Offer etc. [Clause 3 (x)]

**CORPORATE ACCOUNTING AND AUDITING**

- a) whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;
- b) whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with

Reporting of Fraud [Clause 3 (xi)]

- a) whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;
- b) whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;
- c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;

Nidhi Company [Clause 3 (xii)]

- a) whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability;
- b) whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
- c) whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;

(b) Constitution

The National Financial Reporting Authority (NFRA) was constituted on 1st October, 2018 by the Government of India under Sub Section (1) of section 132 of the Companies Act, 2013. The body will comprise of one Chairman who will be an eminent individual with competence in accounting, auditing, finance, or law as Chairperson. In addition, there can be a maximum of 15 members.

NFRA Structure

The following committees will make up the NFRA:

- (i) Accounting Standards Committee;
- (ii) Auditing Standards Committee
- (iii) Enforcement Committee.

Functions and Duties of NFRA

As per Section 132(2) of the Companies Act, 2013, the duties of the NFRA are to:

- (i) Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government;
- (ii) Monitor and enforce compliance with accounting standards and auditing standards;
- (iii) Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service;

**CORPORATE ACCOUNTING AND AUDITING**

- (iv) Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

NFRA's Role in Auditing**A. Recommending Auditing Standards**

As mentioned earlier, NFRA recommends auditing policies and standards to be adopted by companies for approval by the Central Government. For this purpose, the Authority –

- (a) shall receive recommendations from the Institute of Chartered Accountants of India on proposals for new accounting standards or auditing standards or for amendments to existing accounting standards or auditing standards;
- (b) may seek additional information from the Institute of Chartered Accountants of India on the recommendations received under clause (a), if required.

Monitoring and Enforcing Compliance with Auditing Standards

- (1) For the purpose of monitoring and enforcing compliance with auditing standards under the Act by a company or a body corporate governed under Rule 3, the Authority may:
 - (a) review working papers (including audit plan and other audit documents) and communications related to the audit;
 - (b) evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and
 - (c) perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate.
- (2) The Authority may seek additional information or may require the personal presence of the auditor for seeking additional information or explanation in connection with the conduct of an audit.
- (3) The Authority shall perform its monitoring and enforcement activities through its officers or experts with sufficient experience in audit of the relevant industry.
- (4) The Authority shall publish its findings relating to non-compliances on its website and in such other manner as it considers fit, unless it has reasons not to do so in the public interest and it records the reasons in writing.
- (5) The Authority shall not publish proprietary or confidential information, unless it has reasons to do so in the public interest and it records the reasons in writing.
- (6) The Authority may send a separate report containing proprietary or confidential information to the Central Government for its information.

Power to Investigate

In addition to the above, the Authority also enjoys power to –

- (i) investigate any matter of professional or other misconduct under sub-section (4) of section 132 of the Act;
- (ii) undertake investigation into any matter on the basis of its compliance or oversight activities; or
- (iii) undertake suo-motu investigation into any matter of professional or other misconduct, after recording reasons in writing for this purpose.

8. (a) Demonstrate as an auditor how can you audit a co-operative society.

[7]



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(b) Discuss the audit procedure essential for inventories.

[7]

Answer:

(a) Statutory Audit Requirement in Co-Operative Societies

As per Section 17 of the Co-Operative Societies Act, 1912 -

- (i) The Registrar shall audit or cause to be audited by some person authorised by him by general or special order in writing in this behalf, the accounts of every registered society once at least in every year.
- (ii) The audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.
- (iii) The Registrar, the Collector or any person authorised by general or special order in writing in this behalf by the Registrar, shall at all times have access to all the books, accounts, papers and securities of a society, and every officer of the society shall furnish such information in regard to the transactions and working of the society as the person making such inspection may require.
- (iv) Here, 'Registrar' means a person appointed to perform the duties of a Registrar of co-operative societies under this Act.

- (i) **Qualifications of auditor:** Generally, only a chartered accountant within the meaning of the Chartered Accountants Act 1949, can be appointed as the auditor of a co-operative society.
- (ii) **Appointment of the Auditor:** An auditor of a co-operative society is appointed by the Registrar of Co-operative Societies-and the auditor so appointed conducts the audit on behalf of the Registrar and submits his report to him as also to the society.

(iii) Books of accounting records:

- **Cash book**
- **Stock register**
- **Register of assets and investments:**
- **Register of fixed deposits:**
- **Register of sureties:**

- (iv) **Restriction on shareholding:** A co-operative society cannot prescribe any other limit in its bye-laws which is violative of this provision.

(v) Restriction on Loan:

Shareholding in a co-operative society is subject to the limit prescribed in Sec. 5 of the Co-operative Societies Act 1912. Accordingly, no member of the society, other than a registered society, can hold more than twenty per cent of the total number of shares of the society, or such number of shares which in value exceeds `1,000. A co-operative society cannot prescribe any other limit in its bye-laws which is violative of this provision. In addition to this, the Acts passed by the states may also prescribe other restrictions as regards shareholding. The auditor should see that the provision regarding shareholding is duly followed.

(vi) Restriction on Borrowing:

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As per Section 29 of Co-operative Societies Act, 1912, a registered co-operative society can only grant loans to its members, though, with prior approval of the Registrar, it may grant loans to other registered co-operative societies. The auditor should see that the loans granted by the society are in conformity with this provision.

(vii) Investment of Funds:

There are restrictions on investment of funds belonging to a co-operative society.

(ix) Appropriation of profits:

According to the Central Co-operatives Societies Act, 25% of the profits of a co-operative society should be transferred to a Reserve Fund before distribution of dividend or payment of bonus to its members. However, the Registrar may, having regard to the financial position of the society, reduce the percentage of profits to be transferred to the Reserve Fund. But in any case, he cannot reduce it to less than 10% of the profits of the society. Apart from the above mandatory provision, a co-operative society may, subject to the provisions of its bye-laws, appropriate its profits by way of transfer to other reserves, distribution of dividends to members, etc. However, appropriation of profits must be duly approved by the members of the society in the general meeting called for the purpose.

(ix) Contributions to charitable Purposes:

According to Section 34 of Co-operative Societies Act, 1912, a registered society may, with the sanction of the Registrar, contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund for any charitable purpose as defined in Section 2 of the Charitable Endowments Act, 1890.

Steps to be Taken by an Auditor of a Co-Operative Society

- The auditor should carefully go through the bye-laws of the society and see that they are being observed both in letter and spirit.
- He should examine the Register of Members of the society and individual shareholdings.
- He should test-check the internal check and control system operated by the society and model his audit examination based on its strengths and weaknesses.
- He should vouch the payment of loans from the loan agreements entered into with borrower members.
- He should vouch establishment expenses with reference to the resolutions of the Managing Committee, agreements with the persons concerned, and money receipts obtained from them.

(b) Inventories/Stock in Trade

Inventory includes raw materials, loose tools, spare parts, semi-finished goods or work-in- progress, packing materials as well as finished goods ready for sale.

Audit Procedure to be Followed**(a) Existence**

**CORPORATE ACCOUNTING AND AUDITING**

- (i) The auditor should review the client's plan to verify inventory physically. He shall see that the process is properly supervised. He must ensure that all stock count sheets are signed by a responsible official of the client.
- (ii) Where the client follows periodic system stock count should be done at the end of the period. On the other hand, where the client follows perpetual system, stock count should be done at interim dates.
- (iii) The auditor must satisfy himself about any inventory lying at public warehouses or with third party.
- (b) Rights and Obligations**
 - (i) The auditor shall also vouch recorded purchases to underlying documentation such as purchase invoice, purchase order, Goods Received Notes etc. to determine that client is the owner of such goods.
 - (ii) He shall evaluate consignment agreement and any collateral agreement and examine the terms and conditions binding on the client.
 - (iii) He shall also obtain confirmation from the third parties for inventories lying with them.
- (c) Cut-off**

The auditor shall see that the value of investments shown in the Balance Sheet comprises all investments existed and under the ownership of the company on the reporting date.
- (d) Completeness**
 - (i) The auditor should perform analytical procedure to identify any abnormality.
 - (ii) He should collect non-financial information such as weights and measures and check the same with physical verification reports.
 - (iii) He shall also perform purchase and sale cut-off test to identify misappropriation near the year end. He shall also ensure that no item is omitted from inventories and no invalid item is included in inventories. For this purpose, information of all stock lying with customers (under hire purchase system or sale on approval system), at branch and with consignee must be procured and verified.
 - (iv) He shall reconcile physical inventory amounts with perpetual records including stores ledger. The value of the inventory should also be tallied with the amount recorded in the books as adjustment entry of closing stock.
- (e) Valuation**
 - (i) The auditor must determine the appropriateness of the method of issuing inventory (LIFO, FIFO, Weighted Average, etc.) for valuation purpose.
 - (ii) Value of raw materials must be examined based on the cost of purchase, carriage inwards, duties paid, market price of raw materials and estimated cost of disposal. The auditor shall see that lower of cost and NRV has been considered as the value. Relevant documents for this purpose would be purchase invoice, voucher for transport cost, etc.
 - (iii) He shall also ensure that work-in-progress has been valued considering the completed stage of production and all direct and relevant indirect costs (up to works cost).
 - (iv) He shall ensure that cost of finished goods includes all direct and relevant indirect costs. In case the finished goods are expected to fetch value lower than the cost, the auditor shall see that the same is valued at NRV.



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- (v) He shall also see that damaged goods are valued at net realisable value. Moreover, he shall ensure that all obsolete goods have been written off fully.
- (f) Presentation and Disclosure**
- (i) In case of companies, as per Part I of Schedule III of the Companies Act, 2013 all items of inventories shall be included in the head 'Current Assets' under the subhead 'Inventories'.
- (ii) Additionally, in notes to accounts the following disclosures shall be made.
- Inventories shall be classified as –
 - (a) Raw materials
 - (b) Work-in-progress
 - (c) Finished goods
 - (d) Stock in trade (in respect of goods acquired for trading)
 - (e) Stores and spares
 - (f) Loose goods
 - (g) Others (specify nature).
 - Goods-in-transit shall be disclosed under the relevant sub-head of inventories.
 - Mode of valuation shall be stated.