

**INTERMEDIATE EXAMINATION****SET - 2****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 (Compulsory)**1. Choose the correct alternative:****[15 x 2 = 30]**

- (i) Net profit for the year ₹15,000, interest received in advance on 1st January 2021 ₹2,000 and 31st December 2021 ₹3,000, cash from operation will be _____.
- ₹16,000
 - ₹22,000
 - ₹13,000
 - ₹15,000
- (ii) Which of the following is not a mandatory financial statement of a General Insurance Company as per IRDA regulations?
- Revenue Account
 - Profit and Loss Account
 - Balance Sheet
 - Cash Flow Statement
- (iii) Ind AS 1 “Presentation of financial statements” applies to _____.
- Consolidated financial statements in accordance with Ind AS 110, Consolidated Financial Statements,
 - Separate financial statements in accordance with Ind AS 27, Separate Financial Statements.
 - Both of a. and b.
 - None of the above
- (iv) Ordinary shares are 1,00,000 of ₹1.00; 10% Preference shares are 200000 of ₹1.00; PAT ₹10,00,000. Calculate basic EPS.
- ₹9.80
 - ₹9.60
 - ₹9.40
 - ₹9.20
- (v) 01.04.2021 B Ltd. has 1200 ordinary shares outstanding. On 31.08.2022 it issued 400 ordinary shares for cash. On 31.01.22 it bought back 200 ordinary shares. Calculate weighted average number of shares as on 31.03.22.
- 1300
 - 1400
 - 1500
 - 1600



CORPORATE ACCOUNTING AND AUDITING

- (vi) Each of the three parties involved in an audit _____ plays a role that contributes to its success.
- the client, the auditor, and the auditees
 - the client and the auditor
 - the client, the moderator, and the auditee
 - the client, the auditor, and the auditee
- (vii) Statutory Auditor can be removed by the _____.
- Shareholders
 - Audit committee
 - BOD
 - None of the above
- (viii) A nomination and remuneration committee should have _____ directors.
- 5
 - 10
 - 2
 - 3
- (ix) Secretarial Audit is applicable to the public sector company having the paid up share capital of _____.
- 50 crore
 - 75 crore
 - 100 crore
 - 200 crore
- (x) Member of the Institute of Company Secretaries of India are eligible to conduct Secretarial Audit if he/she is having a valid _____.
- Membership No.
 - PAN No.
 - Certificate of Practice
 - None of the above
- (xi) Which of the following is not an audit risk?
- Inherent Risk
 - Detection Risk
 - Control Risk
 - Omission Risk
- (xii) CAATS stands for-
- Cornwall Air Ambulance Trust
 - Children Air Ambulance Trust
 - Center for alternatives to Animal Testing
 - Computer Assisted Auditing Technique

**CORPORATE ACCOUNTING AND AUDITING**

- (xiii) Permanent Audit File does not contain
- A record of study and evaluation of internal control system
 - Significant audit observations of earlier years
 - Copies of management letters
 - Analysis of significant ratios and trends
- (xiv) Check list contains the instructions to be followed by the
- Employer of the organisation
 - Employee of the organisation
 - Banker to the organisation
 - Audit staff engaged by the auditor of the organisation
- (xv) Which of the following is not a content of audit report?
- Signature of the auditor
 - Date of the report
 - Attachment of audit evidences
 - Auditor's address

SECTION-B

(Answer any five questions out of seven questions given. Each question carries 14 Marks.)

2. (a) XYZ Ltd. has the following capital structure on of 31st March 2022.

Particulars	₹ in Crores
a. Equity Share capital (Shares of ₹10 each)	300
b. Reserves:	
General reserve	270
Security Premium	100
Profit and Loss A/c	50
Export Reserve (Statutory reserve)	80
c. Loan Funds	800

The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 10th April 2022 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following A/c of one of its divisions.

The market price was hovering in the range of ₹25 and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.

Examine the maximum number of shares that can be bought back by the company and record journal entries for the same assuming the buy-back has been completed in full within the next 3 months.

If borrowed funds were ₹1200 crores, and 1500 crores respectively would your answer change.

[7]

**CORPORATE ACCOUNTING AND AUDITING**

- (b) On 1st April 2018, H Ltd. issued 442, 10% Debentures of ₹1,000 each at a discount of 10% redeemable at a premium of 5% after 4 years. It was decided to create a Sinking Fund for the purposes of accumulating sufficient funds to redeem the Debentures and to invest in some readily convertible securities yielding 10% interest p.a. Reference to the table shows that ₹1.00 p.a. at 10% compound interest amounts to ₹4.641 in 4 years. Investments are to be made in the Bonds of ₹1,000 each available at par.

On 31st March 2022, the investments realised ₹3,40,000 and debentures were redeemed. The bank balance as on that date was ₹50,000.

Required: Prepare Debenture Redemption Fund Account and Debenture Redemption Fund Investments Account for 4 years. [7]

3. XYZ Pharmaceuticals is a pharma start-up established in 2018. The company has registered significant growth over the last two years. To further expand its business, the company wants to mop up additional capital. Motivated by the recent success of a number of IPOs, the BOD has decided to go for a public issue rather than accessing institutional loan.

In order to apply for the IPO to SEBI, the company requires to submit, along with all other documents, its restated financial statements in prescribed format. The company, therefore, has hired you as an expert to assist its accountant in preparing the financial statements so that the statements conform, in all respect, to the relevant legislation and can be used to prepare restated financial statements for the purpose of filing for an IPO.

You have been given the following information for the financial year 2021-2022.

Particulars	Dr. (₹)	Cr. (₹)
Stock on 1st April, 2021	1,60,000	-
Purchases & Sales	5,00,000	8,00,000
Purchase returns	-	10,000
Carriage inward	2,100	-
Wages	50,000	-
Salaries	20,000	-
Discount Received	-	8,000
Furniture & Fittings	40,000	-
Rent	10,000	-
Sundry expenses	16,500	-
Balance of Profit & Loss (1.4.2021)	-	50,000
Share Capital (Subscribed & Paid-up; ₹10 each)	-	2,00,000
Interim Dividend	16,000	-
Debtors & Creditors	52,400	31,000
Plant & Machinery	2,46,000	-
General Reserve	-	20,000
Cash at bank	8,000	-
Bills Receivable & Bills Payable	6,000	8,000
Total	11,27,000	11,27,000



CORPORATE ACCOUNTING AND AUDITING

Additional information:

- (i) Stock on March 31, 2022 was valued at ₹98,000
- (ii) Depreciate: Plant & Machinery @ 15%, Furniture & Fitting @ 10%.
- (iii) On 31st March, 2022 outstanding rent amounted to ₹800 while outstanding salaries totalled ₹ 1,200.
- (iv) Make a provision for doubtful debts @ 5%.
- (v) Provision for tax is to be made @ 30%.
- (vi) The directors proposed a dividend @ 10% for the year ended March 31, 2022 excluding interim dividend and decided to transfer ₹10,000 to General Reserve.
- I. You are required to prepare the Notes to Accounts to support preparation of the Statement of Profit and Loss for the year ended on 31.03.2022.
- II. You are required to prepare the Statement of Profit and Loss for the year ended on 31.03.2022.
- III. You are required to prepare the Notes to Accounts to support preparation of the Balance Sheet as on 31.03.2022.
- IV. You are required to prepare the Balance Sheet as on 31.03.2022. [14]

4. (a) On 31 March, 2021 Victory Bank Ltd. had a balance of ₹18 crores in Rebate on Bill Discounted A/c. During the year ended 31st March, 2022, Victory Bank Ltd. discounted bills of exchange of ₹8,000 crores charging interest at 18% p.a., the average period of discount being for 73 days. Of these, bills of exchange of ₹1,200 crores were due for realization from the acceptor/customers after 31st March, 2022, the average period outstanding after 31st March, 2022 being 36.5 days.

Victory Bank Ltd. asks you to pass journal entries and prepare the ledger accounts pertaining to:

- a. Discounting of Bills of Exchange; and
- b. Rebate on bill Discounted. [7]

- (b) From the following information Calculate Return on Equity: [7]
- 1. Date of Commercial Operation of COD = 1st April 2019
 - 2. Approved Opening Capital Cost as on 1st April 2019 = ₹15,00,000
 - 3. Details of allowed Additional Capital Expenditure:

	1st year	2nd year	3rd year	4th year
Additional Capital				
Expenditure (Allowed)	1,00,000	30,000	20,000	10,000
Rate of ROE: 15.5%				

5. (a) The following information applies to a company's defined benefit pension plan for the year:

FMV of plan assets (beginning of the year)	₹2,00,000
FMV of plan assets (end of the year)	₹2,85,000
Employer's contribution	₹ 70,000
Benefit paid	₹ 50,000

Calculate the actual return on plan assets. [7]

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- (b) The following is the income statement XYZ Company for the year 2021 – 22. [7]

Particulars	₹	₹	₹
Sale			1,62,700
Add: Equity in ABC company's earning			6,000
			1,68,700
Expenses			
Cost of goods sold		89,300	
Salaries		34,400	
Depreciation		7,450	
Insurance		500	
Research and development		1,250	
Patent amortization		900	
Interest		10,650	
Bad debts		2,050	
Income tax:			
Current	6,600		
Deferred	1,550		
Total expenses		8,150	1,54,650
Net income			14,050

Additional information is:

- 70% of gross revenue from sales were on credit.
- Merchandise purchases amounting to ₹92,000 were on credit.
- Salaries payable totalled ₹1,600 at the end of the year.
- Amortisation of premium on bonds payable was ₹1,350.
- No dividends were received from the other company.
- XYZ Company declared cash dividend of ₹4,000.
- Changes in Current Assets and Current Liabilities were as follows:

	Increase (Decrease) ₹
Cash	500
Marketable securities	1,600
Accounts receivable	(7,150)
Allowance for bad debt	(1,900)
Inventory	2,700
Prepaid insurance	700
Accounts payable (for merchandise)	5,650
Salaries payable	(2,050)
Dividends payable	(3,000)

Prepare a statement showing the amount of cash flow from operations.

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6. (a) Define Auditing, what are the basic principles for governing an audit. [7]
- (b) Discuss the procedure of submission of Cost Audit Report as per Section 148(5) read with Rule 6 of the Companies (Cost Records and Audit) Rules 2014. [7]
7. (a) Discuss the essential characteristics of a good audit report. [7]
- (b) Describe the structure of NFRA, list its functions and duties. [7]
8. (a) Demonstrate the audit procedure to be followed by an auditor while conducting the audit of an educational institution. [7]
- (b) Discuss the benefits and limitations of Joint Audit? [7]

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CORPORATE ACCOUNTING AND AUDITING

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CORPORATE ACCOUNTING AND AUDITING

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Answer:

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

SECTION-B

(Answer any five questions out of seven questions given. Each question carries 14 Marks.)

2. (a) XYZ Ltd. has the following capital structure on of 31st March 2022.

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CORPORATE ACCOUNTING AND AUDITING

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On 31st March 2022, the investments realised ₹3,40,000 and debentures were redeemed. The bank balance as on that date was ₹50,000.

Required: Prepare Debenture Redemption Fund Account and Debenture Redemption Fund Investments Account for 4 years. [7]

Answer:

- (a) Maximum shares that can be bought back

	Situation I	Situation II	Situation III
a. Shares outstanding test (WN # 1)	7.5	7.5	7.5
b. Resources test (WN # 2)	6	6	6
c. Debt Equity ratio test (WN # 3)	10.68	3	-
d. Maximum number of shares for buy back - LEAST of the above	6	3	-

Particulars		Situation I		Situation II	
		Debit	Credit	Debit	Credit
a. Shares bought back A/c	Dr.	180		90	
To Bank A/c			180		90
[Being purchase of shares from public]					
b. Share capital A/c	Dr.	60		30	
Security premium A/c	Dr.	100		60	
General reserve A/c (balancing figure)	Dr.	20		-	
To Shares bought back A/c			180		90
[Being cancellation of shares bought on buy back]					
c. General reserves A/c	Dr.	60		30	
To Capital redemption reserve A/c			60		30
[Being transfer of reserves to capital redemption reserve to the extent capital is redeemed]					

Note: Under situation III, the company does not qualify the debt equity ratio test. Therefore, the company cannot perform the buyback of shares



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Working Notes:

WN # 1: Shares outstanding test

Particulars	₹
a. No. of shares outstanding	30 crores
b.. 25% of shares outstanding	7.5 crores

WN # 2: Resources test

(₹ in Crores)

Particulars	₹
a. Paid up capital	300
b. Free reserves [270+100+50]	420
c. Shareholders fund (a+b)	720
d. 25% of shareholders fund	180
e. Buyback price per share	₹ 30
f. Number of shares that can be bought back	6 Crores

WN # 3: Debt Equity ratio test:

(₹ in Crores)

Particular	Situation I	Situation II	Situation III
a. Borrowed Funds	800	1,200	1,500
b. Minimum equity to be maintained after buy back in the ratio 2:1	400	600	750
c. Present equity	720	720	720
d. Maximum possible dilution in equity	320	120	-
e. Maximum shares that can be bought back @ ₹ 30/- per share	10.67	4	-

Alternatively: Let no. of shares bought back be x @ ₹30

Max ratio of Debt/Proprietors Fund = 2

I	II	III
$\frac{800}{720 - 10x - 30x} = 2$ or, x = 8	$\frac{1,200}{720 - 10x - 30x} = 2$ or, x = 3	$\frac{1,500}{720 - 10x - 30x} = 2$ or, x = -x, so not possible

- (b) DRF = Debenture Redemption Fund, DRFI = Debenture Redemption Fund Investment

Debenture Redemption Fund Account

Dr.

Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.2019	To Balance c/d	1,00,000	31.03.2019	By P&L App. A/c	1,00,000
31.03.2020	To Balance c/d	2,10,000	01.04.2019	By Balance b/d	1,00,000
			31.03.2020	By Interest on DRFI A/c	10,000
				By P&L App. A/c	1,00,000
		2,10,000			2,10,000
31.03.2021	To Balance c/d	3,31,000	01.04.2020	By Balance b/d	2,10,000



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			31.03.2021	By Interest on DRFI A/c	21,000
			31.03.2021	By P&L App. A/c	1,00,000
		3,31,000			
31.03.2022	To Loss on issue of Debentures/ Premium on redemption of Debentures A/c	22,100	01.04.2021	By Balance b/d	3,31,000
	To Debenture Redemption Reserve A/c	4,51,000	31.03.2022	By Interest on DRFI A/c	33,100
			31.03.2022	By P&L App. A/c	1,00,000
				By Debenture Redemption Fund Investment A/c (Profit)	
		4,73,100			4,73,100

Debentures Redemption Fund Investment (DRFI) Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
31.03.2019	To Bank A/c	1,00,000	31.03.2019	By Balance c/d	1,00,000
01.04.2019	To Balance b/d	1,00,000	31.03.2020	By Balance c/d	2,10,000
31.03.2020	To Bank A/c	1,10,000			
		2,10,000			2,10,000
01.04.2020	To Balance b/d	2,10,000	31.03.2021	By Balance c/d	3,31,000
31.03.2021	To Bank A/c	1,21,000			
		3,31,000			3,31,000
01.04.2021	To Balance b/d	3,31,000	31.03.2022	By Bank A/c (Sales)	3,40,000
31.03.2022	To Debenture Redemption Fund A/c (Profit)	9,000			
		3,40,000			3,40,000

Working Note:

- (i) Calculation of the amount of profit set aside
- | | |
|--------------------------------------|----------|
| | ₹ |
| a. Face Value of Debentures | 4,42,000 |
| b. Premium Payable on Redemption | 22,100 |
| c. Depreciable Cost (A + B) | 4,64,100 |
| d. Value of annuity per ₹ 1 | 4,641 |
| e. Annual amount to be charged (C/D) | 1,00,000 |
- (ii) Calculation of the amount of investments and interest

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Year a	Opening Balance b	Interest c= $b \times 10/100$	Saving d	Investments $e=c+d$	Closing Balance $f=b+e$
2017-18	—	—	1,00,000	1,00,000	1,00,000
2018-19	1,00,000	10,000	1,00,000	1,10,000	2,10,000
2019-20	2,10,000	21,000	1,00,000	1,21,000	3,31,000
2020-21	3,31,000	33,100	1,00,000	—	—

Or, Calculate the interest on opening balance of DRFI A/c.

3. XYZ Pharmaceuticals is a pharma start-up established in 2018. The company has registered significant growth over the last two years. To further expand its business, the company wants to mop up additional capital. Motivated by the recent success of a number of IPOs, the BOD has decided to go for a public issue rather than accessing institutional loan.

In order to apply for the IPO to SEBI, the company requires to submit, along with all other documents, its restated financial statements in prescribed format. The company, therefore, has hired you as an expert to assist its accountant in preparing the financial statements so that the statements conform, in all respect, to the relevant legislation and can be used to prepare restated financial statements for the purpose of filing for an IPO.

You have been given the following information for the financial year 2021-2022.

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Stock on 1st April, 2021	1,60,000	-
Purchases & Sales	5,00,000	8,00,000
Purchase returns	-	10,000
Carriage inward	2,100	-
Wages	50,000	-
Salaries	20,000	-
Discount Received	-	8,000
Furniture & Fittings	40,000	-
Rent	10,000	-
Sundry expenses	16,500	-
Balance of Profit & Loss (1.4.2021)	-	50,000
Share Capital (Subscribed & Paid-up; ₹10 each)	-	2,00,000
Interim Dividend	16,000	-
Debtors & Creditors	52,400	31,000
Plant & Machinery	2,46,000	-
General Reserve	-	20,000
Cash at bank	8,000	-
Bills Receivable & Bills Payable	6,000	8,000
Total	11,27,000	11,27,000

Additional information:

- (i) Stock on March 31, 2022 was valued at ₹98,000
- (ii) Depreciate: Plant & Machinery @ 15%, Furniture & Fitting @ 10%.



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- (iii) On 31st March, 2022 outstanding rent amounted to ₹800 while outstanding salaries totalled ₹ 1,200.
- (iv) Make a provision for doubtful debts @ 5%.
- (v) Provision for tax is to be made @ 30%.
- (vi) The directors proposed a dividend @ 10% for the year ended March 31, 2022 excluding interim dividend and decided to transfer ₹10,000 to General Reserve.
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- IV. You are required to prepare the Balance Sheet as on 31.03.2022. [14]

Answer:

Notes to Accounts supporting the Statement of Profit and Loss:

- (1) Cost of purchase

Particulars	Amount(₹)
Purchase less. Returns (5,00,000-10,000)	4,90,000
Add: carriage inward	2,100
	4,92,100

- (2) Employee benefit expenses

Particulars	Amount(₹)
Wages	50,000
Salaries	20,000
Add: Outstanding	71,200

- (3) Depreciation and Amortization

Particulars	Amount(₹)
On Plant and Machinery (2,46,000 x 15%)	36,900
On Furniture and Fittings (40,000 x 10%)	4,000
	40,900

- (4) Other expenses

Particulars	Amount(₹)	Amount(₹)
Rent	10,000	
Add: Outstanding	800	10,800
Sundry expenses		16,500
Provision for doubtful debt (52,400 x 5%)		2,620
		29,920



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XYZ Pharmaceuticals Ltd.

Profit and Loss Statement for the year ended 31st March, 2022

Particulars		Amount(₹)
I. Revenue from operations		8,00,000
II. Other income (Discount received)		8,000
III. Total Revenue [I + II]		8,08,000
IV. Expenses:		
Cost of purchase	1	4,92,100
Changes in inventories [1,60,000-98,000]		62,000
Employee Benefits Expense	2	71,200
Finance Costs		Nil
Depreciation and Amortization Expenses	3	40,900
Other Expenses	4	29,920
Total Expenses		6,96,120
V. Profit before Tax (III-IV)		1,11,880
VI. Tax Expenses @ 30%		33,564
VII. Profit for the period		78,316

Notes to Accounts supporting Balance Sheet:

1.	Share Capital	Amount(₹)	Amount(₹)
	Subscribed and Paid-up Capital		
	20000 Equity Shares of ₹ 10 each	2,00,000	
2	Reserve and Surplus		
	General Reserve (20,000+10,000)	30,000	
	Balance of Statement of Profit & Loss Account		
	Opening Balance	50,000	
	Add: Profit for the period	78,316	
		1,28,316	
	Appropriations		
	Interim dividend	(16,000)	1,02,316
	Transfer to General Reserve	(10,000)	
	Closing balance		1,32,316
3	Trade payables		
	Creditors	31,000	
	Bills payables	8,000	
		39,000	
4.	Other Current Liabilities		
	Outstanding Salaries	1,200	2,000
	Outstanding rent	800	
5	Tangible Assets		
	Plant and Machinery	2,46,000	



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	Less: Depreciation	36,900	
			2,09,100
	Furniture and Fittings	40,000	
	Less: Depreciation	4,000	36,000
			2,45,100
6	Trade Receivables		
	Bills receivable		6,000
	Sundry Debtors	52,400	
	Less: Provision for Doubtful Debts	2,620	49,780
			55,780

XYZ Pharmaceuticals Ltd.
Balance Sheet as on 31.03.2022

I	EQUITY AND LIABILITIES	Note	Amount(₹)
	(1) Shareholders' Funds		
	Share Capital	1	2,00,000
	Reserves and Surplus	2	1,32,316
	(2) Non-Current Liabilities		
	(3) Current Liabilities		
	Trade Payable	3	39,000
	Other Current Liabilities	4	2,000
	Short term provisions (Provision for tax)		33,564
	Total		4,06,880
II	II ASSETS		
	(1) Non-Current Assets		
	(a) PPE and Intangible Assets		
	PPE	5	2,45,100
	(b) Non-current Investments		
	(2) Current Assets		
	Inventories		98,000
	Trade Receivables	6	55,780
	Cash and Cash Equivalent (Bank balance)		8,000
	Total		4,06,880

Foot Note: Contingent Liabilities for Proposed Dividend = 2,00,000 x 10% = ₹20,000

4. (a) On 31 March, 2021 Victory Bank Ltd. had a balance of ₹18 crores in Rebate on Bill Discounted A/c. During the year ended 31st March, 2022, Victory Bank Ltd. discounted bills of exchange of ₹8,000 crores charging interest at 18% p.a., the average period of discount being for 73 days. Of these, bills of exchange of ₹1,200 crores were due for realization from the acceptor/customers after 31st March, 2022, the average period outstanding after 31st March, 2022 being 36.5 days.

Victory Bank Ltd. asks you to pass journal entries and prepare the ledger accounts pertaining to:

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- a. Discounting of Bills of Exchange; and
 b. Rebate on bill Discounted. [7]

- (b) From the following information Calculate Return on Equity: [7]

1. Date of Commercial Operation of COD = 1st April 2019
2. Approved Opening Capital Cost as on 1st April 2019 = ₹15,00,000
3. Details of allowed Additional Capital Expenditure:

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed)	1,00,000	30,000	20,000	10,000
Rate of ROE: 15.5%				

Answer:

- (a)

**In the books of Victory Bank Ltd.
Journal**

(₹ in Crore)

Date	Particulars	Dr. (₹)	Cr.(₹)
1.4.22	Rebate on Bill Discounted A/c Dr. To, Discount on Bills A/c (Being the transfer of opening balance to Rebate on Bill Discounted Account)	18.00	18.00
	Bills Purchased and Discounted A/c Dr. To, Client A/c To, Discount on Bills A/c [₹8,000 x 18/100 x 73/365] (Being the discounting of bills during the year)	8,000	7,712.00 288.00
31.3.22	Discount on bills A/c Dr. To, Rebate on Bills Discounted A/c (Being the Provision for unexpired discount as on 31.03.2012)	21.60	21.60
31.03.22	Discount on bills A/c Dr. To, Profit and Loss A/c (Being the amount of income for the year from discounting of bills of exchange transferred to Profit and Loss Account)	284.40	284.40

**Ledger of Victory Bank Ltd.
Rebate on Bills Discounted Account**

(₹ In Crores)**Dr.****Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
01.4.21	To, Discount on bills A/c	18.00	01.4.21	By balance b/d	18.00
31.03.22	To balance c/d	21.60	31.3.22	By Discount on bills A/c (Rebate required)	21.60
		39.60			39.60



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Discount on Bills Account			(₹In Crores)		
Dr.			Cr.		
Date	Particulars	(₹)	Date	Particulars	(₹)
31.03.22	To Rebate on Bills Discount A/c	21.60	01.4.21	By Rebate on Bills Discounted A/c	18.00
31.03.22	To Profit and Loss A/c (Transfer)	284.40	2021-22	By Bills Purchased and Discount A/c	288.00
		306.00			306.00

(b) Statement showing Return on Equity at Normal Rate

S. No	Particulars	Year 1	Year 2	Year 3	Year 4
1	2	3	4	5	6
	Return on Equity				
1	Gross Opening Equity (Normal) 30% of Opening Capital Cost	4,50,000	4,80,000	4,89,000	4,95,000
2	Less: Adjustment in Opening Equity	Nil	Nil	Nil	Nil
3	Adjustment during the year	Nil	Nil	Nil	Nil
4	Net Opening Equity (Normal)	4,50,000	4,80,000	4,89,000	4,95,000
5	Add: Increase in equity due to addition during the year / period (30%)	30,000	9,000	6,000	3,000
6	Less: Decrease due to De-capitalisation during the year / period	Nil	Nil	Nil	Nil
7	Less: Decrease due to reversal during the year /period	Nil	Nil	Nil	Nil
8	Add: Increase due to discharges during the year/ period	Nil	Nil	Nil	Nil
9	Net closing Equity (Normal)	4,80,000	4,89,000	4,95,000	4,98,000
10.	Average Equity (Normal)	4,65,000	4,84,500	4,92,000	4,96,500
11	Rate of ROE	15.5%	15.5%	15.5%	15.5%
12	Total ROE	72,075	75,098	76,260	76,958

5. (a) The following information applies to a company's defined benefit pension plan for the year:

FMV of plan assets (beginning of the year)	₹2,00,000
FMV of plan assets (end of the year)	₹2,85,000
Employer's contribution	₹ 70,000
Benefit paid	₹ 50,000

Calculate the actual return on plan assets.

[7]

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- (b) The following is the income statement XYZ Company for the year 2021 – 22. [7]

Particulars	₹	₹	₹
Sale			1,62,700
Add: Equity in ABC company's earning			6,000
			1,68,700
Expenses			
Cost of goods sold		89,300	
Salaries		34,400	
Depreciation		7,450	
Insurance		500	
Research and development		1,250	
Patent amortization		900	
Interest		10,650	
Bad debts		2,050	
Income tax:			
Current	6,600		
Deferred	1,550		
Total expenses		8,150	1,54,650
Net income			14,050

Additional information is:

- (i) 70% of gross revenue from sales were on credit.
- (ii) Merchandise purchases amounting to ₹92,000 were on credit.
- (iii) Salaries payable totalled ₹1,600 at the end of the year.
- (iv) Amortisation of premium on bonds payable was ₹1,350.
- (v) No dividends were received from the other company.
- (vi) XYZ Company declared cash dividend of ₹4,000.
- (vii) Changes in Current Assets and Current Liabilities were as follows:

	Increase (Decrease) ₹
Cash	500
Marketable securities	1,600
Accounts receivable	(7,150)
Allowance for bad debt	(1,900)
Inventory	2,700
Prepaid insurance	700
Accounts payable (for merchandise)	5,650
Salaries payable	(2,050)
Dividends payable	(3,000)

Prepare a statement showing the amount of cash flow from operations.



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Answer:

- (a) Calculation of actual return on plan assets

Particulars	₹	₹
Change in plan assets (2,85,000 – 2,00,000)		85,000
Adjustments:		
Employer's contribution	70,000	
Less: Benefit paid	50,000	20,000
Actual return on plan assets		65,000

- (b) Statement Showing Cash Flow from Operations

	₹	₹
Cash flow from operations		
Cash sales (30% 1,62,700)	48,810	
Collection from debtors	1,20,890	
Total cash from operations		1,69,700
Uses of cash from operations		
Payment to suppliers	86,350	
Salaries expense	36,450	
Payment for insurance	1,200	
Research and development	1,250	
Interest payment	12,000	
Income tax payment	6,600	1,43,850
Net cash flow from operations		25,850

Notes:

- (1)

Collection from debtors	₹
Credit sales (70% × 1,62,700)	1,13,890
Less: Bad debts (2,050 less 1,900)	150
	1,13,740
Add: decrease in accounts receivables	7,150
Collection from debtors on credit sales	1,20,890

- (2) Dividends earned ₹6,000 on equity of ABC Company has not been considered as it has not been received in cash.

- (3)

Payments of suppliers	₹
Cost of goods sold	89,300
Add: Increase in inventory	2,700
Purchases	92,000
Less: increase in accounts payable	5,650
Payment to suppliers	86,350

- (4)

Calculation of salaries payment	₹
Salary expense	34,400
Add: decrease in salary payable	2,050
Payment of salaries	36,450

- (5)

Insurance payments	₹
Insurance	500
Add: increase in prepaid insurance	700
Payment for insurance	1,200



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(6)

Interest expenses	₹
Add: Amortisation of bond premium	1,350
Interest payments	12,000

(7)

Income tax payments	₹
Income tax expense	8,150
Less: Deferred tax	1,550
	6,600
Changes in current tax payable	Nil
Income tax payments	6,600

6. (a) Define Auditing, what are the basic principles for governing an audit. [7]
- (b) Discuss the procedure of submission of Cost Audit Report as per Section 148(5) read with Rule 6 of the Companies (Cost Records and Audit) Rules 2014. [7]

Answer:

(a) **Basic Principles Governing an Audit**

SA 200 issued by The Institute of Chartered Accountants of India gives the following basic principles that govern the auditor's responsibilities whenever an audit is carried out:

- (i) **Integrity, objectivity and independence:** The auditor should be straight-forward, honest, sincere and free from any influence on his audit work. He should maintain impartiality and be free of any interest.
- (ii) **Confidentiality:** He should not disclose the client's information to anybody without the client's permission or under any regulatory requirement.
- (iii) **Skills and competence:** The audit should be performed and audit report be prepared by adequately trained, experienced and competent person.
- (iv) **Work performed by others:** The auditor should carefully supervise the work performed by others (such as his subordinates, other auditors, experts etc.) as remains responsible for the work delegated by him to his assistants, other auditors or experts.
- (v) **Documentation:** Proper working papers should be maintained by the auditor to evidence the audit work. Working paper which is maintained is to demonstrate that the audit is in adherence to the basic principles.
- (vi) **Planning:** The auditor should obtain the knowledge about client's business to determine the nature, timing and the extent of the audit procedures.
- (vii) **Audit evidence:** The auditor should obtain sufficient appropriate audit evidence through performing the compliance and substantive procedures.
- (viii) **Accounting system and internal controls:** An understanding of the accounting system and the related internal controls help in determining the nature, timing and extent of other audit procedures.
- (ix) **Audit conclusions and reporting:** On the basis of conclusions drawn from the audit evidence obtained the auditor should give unqualified report or qualified report or adverse report or the disclaimer report.



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- (b) As per Section 148(5) read with Rule 6 of the Companies (Cost Records and Audit) Rules 2014:
- (a) Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in Form CRA-3.
 - (b) The cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.
 - (c) The company covered under these rules shall, within a period of 30 days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in Form CRA-4 in Extensible Business Reporting Language format in the manner as specified in the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014".
Provided that the Companies which have got extension of time of holding Annual General Meeting under section 96 (1) of the Companies Act, 2013, may file Form CRA-4 within resultant extended period of filing financial statements under section 137 of the Companies Act, 2013.
 - (d) If the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that government.

7. (a) Discuss the essential characteristics of a good audit report. [7]
- (b) Describe the structure of NFRA, list its functions and duties. [7]

Answer:

- (a) The following are the essential characteristics of a good audit report:
- (i) **Simplicity:** An audit report should be simple and easily understandable to the users. It should be written in simple language and should be self-explanatory.
 - (ii) **Clarity:** The audit report should be clear and unambiguous. The auditor must clearly mention, in his report, the purpose of audit, sources of information, his findings and overall opinion.
 - (iii) **Brevity:** The report should be brief and specific. While everything relevant must be disclosed, the report should avoid unnecessary detailing.
 - (iv) **Firmness:** The report should firmly state whether, in the opinion of the auditor, the financial statements represent the true and fair view of the performance and state of affairs of the business.
 - (v) **Objectivity:** The audit report should always be based on objective evidences. It is very much required to reduce or eliminate biases, prejudices, or subjective evaluations by relying on verifiable data.
 - (vi) **Disclosure:** The audit report should properly disclose all relevant facts and the truth. The relevance should be decided based on materiality of the concerned item.
 - (vii) **Impartiality:** The report should be unbiased. The recommendations must be impartial and objective.
 - (viii) **Information-based:** Only relevant and accurate information should be included in the audit report.
 - (ix) **Timeliness:** The report should be prepared and presented within the stipulated time. This will help in timely decision making.

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

Sub Rule (1) of Rule 4 of the NFRA Rules, 2018, provides that the Authority shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under Rule 3 by establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors.

8. (a) **Demonstrate the audit procedure to be followed by an auditor while conducting the audit of an educational institution.** [7]
- (b) **Discuss the benefits and limitations of Joint Audit?** [7]

Answer:

- (a) Educational institutions of any state in India are generally established and run under the Societies Registration Act 1960 or Public Trust Act of the state concerned. Similarly, central educational institutions are guided by the respective regulations issued by the Ministry of Education from time to time. In some cases, large educational institutions like universities are established by Central or State governments by enacting special legislation. Accordingly, the audit of accounts of these institutions is carried out as per the provisions of the legislation or the Trust Deed concerned. In addition, various circulars issued by the Central or State Government for institutions are also considered relevant in this respect.

a) Understand the Constitution:

Study the Trust deed, Regulation or Act under which the institution has been established and should take note of the provisions regarding the maintenance of accounts. In case of State or Central University, established under the Special Act, study the regulations framed under the Act.

b) Assess the Internal Control System:

Normally, these institutions have a well-organised internal control system. So, evaluate the internal control system associated with acquisition and maintenance of assets, authorization of transactions, etc. before finalising the audit programme.

c) Consult the Minute Book:

Carefully examine all notices and minutes of the meeting of Governing Body

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(in case of colleges), Senate, Syndicate, Court and Council (in case of universities) and other committees which affect the accounts and finance of the institute. Confirm that the decisions taken for operation of bank accounts, approval of expenditure etc. have been duly complied with.

d) Consult the Budget:

Check the budget allocation to different heads and confirm that all amount sanctioned beyond budget has been duly approved.

Verify the Receipts Related Transactions:

- (i) **Tuition Fees:** Tally the counterfoils of fee receipt with fee register to see whether they have been duly recorded or not. Check the register to identify whether all the students have paid their fees in due time. If any student has deposited the fees beyond the due date, check whether late fine has been charged or not and whether the same has been properly recorded. See whether all collections are deposited in the bank account at the end of the day. Total up the various columns of the Fees Register for each month or term to ascertain that fee paid in advance have been carried forward and the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
- (ii) **Admission Fees:** Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund, unless the Managing Committee has taken a decision to the contrary.
- (iii) **Other Fees:** Verify the collection of other fees such as library fees, session fees or development fees, fees for hostel etc. based on the counterfoils and fee registered and ensure that the fees have been accounted for in appropriate heads.
- (iv) See that all arrears on account of fees, fines, etc. have been taken into consideration at the end of accounting period.
- (v) See that free studentship and concessions have been granted by a person authorised to do so, having regard to the prescribed Rules.
- (vi) Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
- (vii) Verify grants received from Government or other organisations based on the sanction letter and bank statement.
- (viii) Ensure that donation received, if any, has been acknowledged and recorded properly in the books of accounts.
- (ix) Check income from letting out institutional properties based on the counterfoil of receipts issued to parties.
- (x) Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.

Verify the Payments Related Transactions:

- (i) Verify the salary and wages paid to the employees. In case of Govt. or aided colleges, verify that the claims have been properly prepared and the amount sanctioned has been distributed to the right person.
Check the calculation and accounting of arrear salary and see whether the deductibles from salary, such as Provident Fund Contribution and Income Tax deducted at source, have been deposited with the authority concerned in due time and if not, whether the same have been accounted for appropriately.

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- (ii) Examine whether all the expenditure associated with special events like seminar or symposium etc. has been accounted for by matching the expenditure in this regard against the amount obtained from any organisation or sanctioned by the institution itself.
- (iii) Vouch all the regular expenses such as electricity, telephone or broadband bills, travelling expenses, etc. based on available vouchers and accounting records.
- (iv) Vouch purchase of fixed assets, expenditure for construction of college buildings based on the available vouchers, resolution of the meetings of purchase/finance committee. Similarly, utilization of grants for purchase of fixed assets, library books and laboratory equipment must be separately vouched.
- (v) Vouch the refund of Caution Deposit from the students based on receipts and accounting records.
- (vi) Examine the payments on account of hostel facilities including repairs and maintenance of hostel building, electricity charges, purchase of food items etc.
- (vii) See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated and invested along with the corpus.

Verification of Assets and Liabilities:

- (i) Conduct physical verification of tangible fixed assets as shown in the Fixed Asset Register. Verify investments based on Investment Register.
- (ii) Check whether depreciation and amortization has been provided as per the policy adopted.
- (iii) Verify the refund of TDS in respect of interest on investment, if any.
- (iv) Carefully examine all outstanding liabilities such as electricity and telephone bills outstanding, TDS and PF not yet deposited.
- (v) Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. These should be checked by reference to Stock Register and values applied to various items should be test checked.
- (vi) Ascertain that the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing and other equipment is efficient and all bills are duly authorised and passed before payment.

Verification of Financial Statements:

Verify that the financial statements (i.e., Income and Expenditure Account and Balance Sheet) have been prepared in the form and manner as specified by the regulatory authority complying with the account standards and applicable legal requirements.

(b) Limitations of Joint Audit

- (i) Established auditors may have a superiority complex over the less experienced one.
- (ii) It is not suitable for a small entity due to substantial cost burden.
- (iii) At times, lack of coordination among the auditors may slow down the speed of work.
- (iv) There may be uncertainty about the liability of any work.
- (v) Areas of common concern may be neglected.
- (vi) The auditors have to share the fees.