



CORPORATE ACCOUNTING

**PREVIOUS
QUESTIONS
PAPERS**



**INTERMEDIATE EXAMINATION
GROUP - II
(SYLLABUS 2016)**

**SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2017**

Paper-12 : COMPANY ACCOUNTS AND AUDIT

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.
Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.
The Question paper has two Sections, A and B. Both sections are to be answered as per instruction given against each.

Section – A (Company Accounts)

Answer Question No. 1 and any three from Question No. 2, 3, 4 and 5.

1. (a) Choose the correct answer from the four alternatives given: 1×6=6
- (i) Underwriting Agreements are of
 - (A) One type
 - (B) Two types
 - (C) Three types
 - (D) Four types
 - (ii) Segment Reporting is covered under
 - (A) AS 16
 - (B) AS 17
 - (C) AS 18
 - (D) AS 19
 - (iii) On redemption of Debentures, the amount lying in Debenture Redemption Reserve, which is no longer necessary to be retained, should be transferred to
 - (A) Revaluation Reserve
 - (B) Securities Premium Reserve
 - (C) Capital Reserve
 - (D) General Reserve
 - (iv) Rate of provisioning by a Bank for Advances doubtful for more than 1 year but less than 3 years is
 - (A) 25%
 - (B) 40%
 - (C) 60%
 - (D) 100%
 - (v) Balance of Interest Accrued on Security Deposit A/c of an Electricity company should be shown
 - (A) under Current Liability.
 - (B) under Non-current Liability.
 - (C) under Current Asset.
 - (D) under Non-current Asset.
 - (vi) Which of the following items is not a part of cash flow from operating activities?
 - (A) Collection from customers
 - (B) Payment of outstanding wages

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- (C) Payment to suppliers of machinery
- (D) Advances to foreign suppliers for raw materials

(b) Match the following items in Column 'A' with items shown in Column 'B': 1×4=4

	Column 'A'		Column 'B'
1.	Grants Received from Government	A.	Capital Redemption Reserve
2.	Redemption of Debentures	B.	AS 15
3.	Issue of Bonus shares	C.	AS 12
4.	Defined benefit plans	D.	Sinking Fund

(c) State whether the following statements are True or False: 1×4=4

- (i) Exchange difference arising in respect of monetary items is to be recognized as income or expenditure during the year.
- (ii) Capital Reserve is a Reserve which is available for distribution as Dividend.
- (iii) Interest received by a finance company is a part of cash flow from investing activities.
- (iv) Interest accrued and due should be shown under the head Other Current Liabilities in a Balance Sheet of a Company.

Answer:

1. (a)

- (i) — B
- (ii) — B
- (iii) — D
- (iv) — B
- (v) — B
- (vi) — C

(b)

1	C
2	D
3	A
4	B

(c)

(i)	T
(ii)	F
(iii)	F
(iv)	T

2. (a) A joint stock company resolved to issue 5 lakh equity shares of ₹10 each at a premium of ₹1 per share. 50000 of these shares were taken up by the directors and their relatives, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications. The issue was underwritten by P, Q and R for a commission of 2% of the issue price. 65% of the issue was underwritten by P, while Q and R's share were 25% and 10% respectively.

Their firm underwriting was as follows:

P 15000 shares, Q 10000 shares and R 5000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with the members of the general public.

Marked applications were as follows:

P 59750 shares, Q 28750 shares and R 5250 shares. Unmarked applications totaled 350000 shares.

Accounts with the underwriters were promptly settled.

You are required to prepare a statement calculating liability of the Underwriters for

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shares other than shares underwritten Firm and also calculate the amount due from/to the Underwriters. 8

(b) M Ltd. sold machinery having WDV of ₹ 200 Lakhs to N Ltd. for ₹ 250 Lakhs and the same machinery was leased back by N Ltd. to M Ltd. The lease back is an operating lease. Comment on the accounting treatment as per AS 19 in the following circumstances:

- (i) Fair value is ₹ 230 Lakhs and sale price is ₹ 250 Lakhs
 (ii) Fair value is ₹ 175 Lakhs and sale price is ₹ 195 Lakhs 4

Answer:

2. (a) Total number of shares issued =	5,00,000
Less: Shares taken by the directors etc.	<u>50,000</u>
Shares offered to public	<u>4,50,000</u>

Calculation of underwriters' liability

Particulars	P	Q	R
Gross liability (65:25:10)	2,92,500	1,12,500	45,000
(-) Marked application	59,750	28,750	5,250
	<u>2,32,750</u>	<u>83,750</u>	<u>39,750</u>
(-) Unmarked application in the ratio of gross liability	2,27,500	87,500	35,000
Resultant liability (or surplus)	5,250	(3,750)	4,750
(-) Surplus of Q allocated to P and R in the ratio of 65:10	3,250	3,750	500
Net liability	2,000	Nil	4,250

Workings: Calculation of amount due from/to underwriters

Particulars	P	Q	R
No. of shares to be subscribed as per agreement (exc. Firm)	2,000	Nil	4,250
Amount payable @ ₹ 11	22,000	Nil	46,750
Underwriting commission @ 2%			
P: (292500×11×2%)	64,350		
Q: (112500×11×2%)		24,750	
R: (45000×11×2%)			9,900
Amount (paid) / received	(42,350)	(24,750)	36,850

(b) Here the leaseback is an operating lease.

So, the treatment of the given circumstances will be as follows:

- (i) Here, sale price > Fair value, so, profit of ₹(230-200) = ₹ 30 Lakhs is to be immediately recognized by M Ltd in its books and balance profit of ₹(250-230) i.e. ₹ 20 Lakhs is to be amortized over the lease period.
- (ii) Here, sale price < Fair value, so, loss of ₹(200-175) = ₹ 25 Lakhs is to be immediately recognized by M Ltd in its books and balance profit of ₹ (195-175) i.e. ₹ 20 Lakhs is to be amortized over the lease period.

3. (a) From the following information provided, prepare a Cash Flow Statement as per AS-3.
Balance Sheet of PQR Ltd.

	Particulars	Note No.	As on 31.03.16	As on 31.03.15
I	Equity and Liabilities			
	1. Shareholders' fund			
	(a) Share Capital	1	20,00,000	20,00,000
	(b) Reserves and Surplus	2	10,00,000	8,70,000
	2. Share application money pending allotment		Nil	Nil

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	3. Non-Current Liability		Nil	Nil
	4. Current Liabilities		6,50,000	8,00,000
	Total		36,50,000	36,70,000
II	Assets			
	1. Non-current Assets			
	(a) Fixed Assets (Tangible)		16,50,000	15,00,000
	(b) Non-current Investment		7,00,000	8,00,000
	2 Current Assets			
	(a) Inventories		7,60,000	7,00,000
	(b) Trade Receivables		4,50,000	5,00,000
	(c) Cash and Cash Equivalent		6,000	74,000
	(d) Short term loan and advances (Prepaid Expenses)		84,000	96,000
			36,50,000	36,70,000

Notes to Accounts:

	1. Share Capital			
	Equity Share Capital		20,00,000	15,00,000
	Redeemable Preference Share Capital of `100, `50 paid		Nil	5,00,000
			20,00,000	20,00,000
	2. Reserve and Surplus			
	Balance of Profit		3,00,000	4,50,000
	General Reserve		2,00,000	4,00,000
	Capital redemption reserve		5,00,000	Nil
	Securities Premium		Nil	20,000
			10,00,000	8,70,000

Additional information:

- (i) During the year the company got income from investment ` 80,000.
- (ii) Company paid `1,50,000 as equity dividend and ` 76,000 as preference dividend.
- (iii) The company redeemed the preference shares at a premium of 5% after making a successful call of ` 50 per share to make the shares fully paid.
- (iv) During the year one machine was sold for ` 50,000 and the profit on sale of ` 6,000 was taken to Profit and Loss A/c. Depreciation for the year on fixed assets was ` 1,80,000.

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- (b) From the following information calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

- (i) Date of Commercial Operation COD = 1st April 2016
- (ii) Approved Opening Capital Cost as on 1st April 2016 = ` 20,00,000
- (iv) Return of equity to be computed @ 14% p.a.
- (v) Additional Capital Expenditure (Allowed) is as follows:

Year	1	2	3	4
Amount (₹)	1,20,000	40,000	30,000	15,000

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Answer:

3. (a)

Particulars		
1. Cash Flow from Operating Activities:		
Fund from Operation	5,00,000	
(-) increase in Inventory	60,000	
(+) Decrease in Trade Receivables	50,000	
(+) Decrease in Prepaid Expenses	12,000	
(-) Decrease in Current Liability	1,50,000	

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Cash Flow from operating activities		3,52,000
II. Cash Flow from Investing Activities:		
Income received from investment	80,000	
Machinery sold	50,000	
Sale of investment	1,00,000	
Purchase of machinery	(3,74,000)	(1,44,000)
III. Cash Flow from Financing Activities		
Dividend Paid (1,50,000+76,000)	(2,26,000)	
Call received on Preference shares	5,00,000	
Preference shares redeemed at premium	(10,50,000)	
Equity share issued	5,00,000	(2,76,000)
		(68,000)
(+)Opening cash and cash equivalent		74,000
Closing cash and cash equivalent		6,000

Workings:

Profit & Loss Account

Dr.		Cr.	
To Dividend	2,26,000	By Balance b/f	4,50,000
To Prem. on redemption	30,000	By Profit on Sale of Machine	6,000
To Cap. Red. Reserve	3,00,000	By Income from Investment	80,000
To Depreciation	1,80,000	By Fund from Operation (bal.fig)	5,00,000
To Balance c/f	3,00,000		
	10,36,000		10,36,000

Fixed Assets Account

Dr.		Cr.	
To Balance b/f	15,00,000	By Bank	50,000
To Profit and Loss	6,000	By Depreciation	1,80,000
To Bank (bal.fig.)	3,74,000	By Balance c/f	16,50,000
	18,80,000		18,80,000

Equity Share Capital Account

Dr.		Cr.	
		By Balance c/f	15,00,000
		By Bank	5,00,000
To Balance c/f	20,00,000		
	20,00,000		20,00,000

Preference Share Capital Account

Dr.		Cr.	
To PSH	10,00,000	By Balance c/f	5,00,000
		By Bank	5,00,000
	10,00,000		10,00,000

Preference Share Holders (PSH) Account

Dr.		Cr.	
To Bank	10,50,000	By Pref. Sh. Capital	10,00,000
		By Premium on Redemption	50,000
	10,50,000		10,50,000

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General Reserve Account

Dr.		Cr.	
To CRR	2,00,000	By Balance b/f	4,00,000
To Balance c/f	2,00,000		
	4,00,000		4,00,000

Capital Redemption Reserve Account

Dr.		Cr.	
To Balance c/f	5,00,000	By Balance b/f	Nil
		By General Reserve	2,00,000
		By Profit & Loss	3,00,000
	5,00,000		5,00,000

Securities Premium Account

Dr.		Cr.	
To Premium on Redemption	20,000	By Balance b/f	20,000
To Balance c/f	Nil		
	20,000		20,000

Premium on Redemption Account

Dr.		Cr.	
To Securities Premium	20,000	By PSH	50,000
To Profit and Loss	30,000		
	50,000		50,000

Investment Account

Dr.		Cr.	
To Balance b/f	8,00,000	By Bank	1,00,000
		By Balance c/f	7,00,000
	8,00,000		8,00,000

(b)

Calculation for Return on Equity

Particulars	1 st Year	2 nd Year	3 rd Year	4 th Year
A. Opening Equity (30%)	6,00,000	6,36,000	6,48,000	6,57,000
B. Additional equity (30%)	36,000	12,000	9,000	4,500
C. Closing Equity (A+B)	6,36,000	6,48,000	6,57,000	6,61,500
D. Average Equity [(A+C)/2]	6,18,000	6,42,000	6,52,500	6,59,250
E. Return on Equity (14% of D)	86,520	89,880	91,350	92,295

4. Elixir Ltd. provides the following Trial Balance as on 31st March 2016:

Particulars	Dr. Balance (₹)	Cr. Balance (₹)
Equity Share Capital 300000 shares of ` 10 each fully paid		30,00,000
12% Bank Loan		2,00,000
Furniture	2,25,000	
Machinery	7,50,000	
Building	12,50,000	
Non-current Investment	2,00,000	
Sales		48,00,000
Sales Return	4,00,000	
Interest Received on Investment		20,000
Interest on Bank Loan	20,000	
Purchase	33,20,000	

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Purchase Returns		420,000
Opening Stock	2,00,000	
Discount	6,250	
Carriage on Goods Sold	1,39,000	
Rent and Taxes	60,000	
Trade Receivables	12,00,000	
Trade Payables		80,000
Advertisement	1,20,000	
Bad Debt	10,000	
Salaries	4,00,750	
Audit Fees	27,000	
Contribution of P.F.	60,000	
Cash at Bank and in hand	1,32,000	
Total	85,20,000	85,20,000

Additional Information:

- (i) Closing Stock as on 31st March 2016 was ` 2,12,500
- (ii) Depreciation Rates: Furniture 10%; Machinery 20% and Building 10%
- (iii) Outstanding salaries as on 31st March 2016 was ` 62,250
- (iv) Trade receivables include a sum of ` 25,000 due from Mr. B. Reddy and trade payables include ` 15,000 due to him.
- (v) Create a provision for doubtful debt @ 5% on trade receivables.
- (vi) Provide for income tax ` 80,000.

Prepare a Statement of Profit and Loss for the year ended on 31st March 2016 and a Balance Sheet as on that date. 12

Answer:

4. Notes to Accounts (Schedules):

Schedule - 1. Employee Benefit Expenditure		`
Salaries		4,00,750
Outstanding Salaries		62,250
Contribution to P.F.		60,000
		5,23,000

Schedule - 2. Finance Cost		`
Interest on loan		20,000
Outstanding Interest		4,000
		24,000

Schedule - 3. Other Expenditure		`
Discount		6,250
Carriage		1,39,000
Rent		60,000
Advertisement		1,20,000
Bad Debt		10,000
Audit fees		27,000
Provision for Bad debt		59,250
		4,21,500

Schedule - 4. Trade Receivable		`
Total Receivable		12,00,000
(-) Set off		15,000
		11,85,000
(-) Provision @ 5%		59,250
		11,25,750

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Schedule - 5. Fixed Assets	Furniture (₹)	Machine (₹)	Building (₹)
Balance	2,25,000	7,50,000	12,50,000
(-) Depreciation	22,500	1,50,000	1,25,000
	2,02,500	6,00,000	11,25,000
Total Fixed Assets			19,27,500
Depreciation			2,97,500

Statement of Profit and Loss for the year ended on 31.03.2016

Particulars	Note	₹
1. Revenue from operation (sales less returns)		44,00,000
II. Other Income (Income from investment)		20,000
III. Total revenue		44,20,000
IV. Expenses:		
Purchase		29,00,000
Changes in inventory i.e. opening less. Closing		(12,500)
Employee Benefit expenses	1	5,23,000
Finance cost	2	24,000
Depreciation	5	2,97,500
Other expenses	3	4,21,500
		41,53,500
V. Profit before exceptional and extraordinary items and tax		2,66,500
VI. Exceptional items		Nil
VI Profit before extraordinary items and tax		2,66,500
VII. Extraordinary items		Nil
VIII. Profit before tax		2,66,500
IX. Tax (provision for tax)		80,000
X. Profit after tax		1,86,500

Balance Sheet as on 31.03.2016

	Note	₹
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital		30,00,000
(b) Reserve and Surplus (Balance of Profit)		1,86,500
2. Share Application money pending allotment		Nil
3. Non-current liabilities (12% Bank loan)		2,00,000
4. Current Liabilities		
Trade Payable (after set off of ₹ 15,000)		65,000
Outstanding interest		4,000
Outstanding salary		62,250
Provision for Tax		80,000
Total		35,97,750
II. Assets		
1. Non-current Assets		
(a) Fixed Assets (Tangible)	5	19,27,500
(b) Non-current Investment		2,00,000
2. Current Assets		
Inventories		2,12,500
Trade Receivable	4	11,25,750
Cash and cash equivalent		1,32,000
Total		35,97,750

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5. Write short note (any three):

4×3=12

- (a) Recognition of Govt. grants related to specific fixed assets
- (b) Sweat Equity Shares
- (c) Treatment of Service Line Cum Development Charges
- (d) Objective of preparing Cash Flow Statement

Answer:

5. (a) Recognition of Govt. grants related to specific fixed assets:

Grants received specifically for fixed asset is disclosed in the financial statement either

- (i) by way of deduction from the gross block of the asset concerned, thus grant is recognized in Profit and Loss Account through reduced depreciation (in case of funding of specific asset Cost entirely, the asset should be stated at a nominal value in Balance Sheet); or
- (ii) the grant treated as deferred revenue income and charged off on a systematic and rational basis over the useful life of the asset, until appropriated disclosed as —Deferred Govt. grant under Reserves and Surplus in the Balance Sheet (grants relating to depreciable assets should be credited to Capital Reserve and suitably credited to Profit and Loss Account to offset the cost charged to income).

(b) Sweat Equity Share:

Notwithstanding anything contained in section 53, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:—

- (a) the issue is authorised by a special resolution passed by the company;
- (b) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- (c) not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business; and
- (d) where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as may be prescribed.

The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank pari passu with other equity shareholders.

Where the sweat equity shares are issued for a non-cash consideration, such non-cash consideration shall be treated in the following manner in the books of account of the company:-

- (a) where the non-cash consideration takes the form of a depreciable or amortizable asset, it shall be carried to the balance sheet of the company in accordance with the relevant accounting standards; or
- (b) where clause (a) is not applicable, it shall be expensed as provided in the relevant accounting standards.

(c) Treatment of Service Line Cum Development Charges:

Following different accounting and reporting practices are noticed in published Financial Statements of some Electricity Companies:

Accounting Practice 1: SLD is accounted for as a liability and subsequently

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proportionate amount is transferred to Income Statement during the expected life of the Asset.

Accounting Practice 2: SLD is accounted for as Reserve as the amount is not refundable and disclosed under the head Reserves and Surplus without transferring any proportionate amount to Income Statement during the expected life of the Asset.

Accounting Practice 3: SLD is accounted for as Capital Reserve as the amount is not refundable and subsequently proportionate amount is transferred to Income Statement during the expected life of the Asset to match against depreciation on total cost of such asset.

Accounting Practice 4: SLD is accounted for as reduction in the cost of Non-Current Asset and depreciation is provided on such reduced cost.

- (d) Objective of preparing Cash Flow Statement: The objectives are as follows:
- (i) To provide information about firm's liquidity, flexibility and ability to generate future cash flow.
 - (ii) To provide information about firm's ability to meet future obligations.
 - (iii) To enhance comparability among firms.
 - (iv) To assess reliability of net profit and quality of earnings.
 - (v) To enable the users to assess how assets and liabilities have increased or decreased.
 - (vi) To project future cash flow streams.
 - (vii) To provide information on different types of cash flow.

Section - B (Audit)

Answer Question No. 6 and any three from Question No. 7, 8, 9 and 10.

6. (a) Identify the correct alternative: 1×6=6
- (i) Which of the following is not an audit risk?
 - (A) Inherent Risk
 - (B) Detection Risk
 - (C) Control Risk
 - (D) Omission Risk
 - (ii) Dividend cannot be paid out of
 - (A) current year's profit after providing depreciation.
 - (B) undistributed profits for any previous financial year or years after providing for depreciation.
 - (C) profit on revaluation of any fixed assets.
 - (D) money provided by the Central Government or a State Government.
 - (iii) Permanent Audit File does not contain
 - (A) a record of study and evaluation of internal control system.
 - (B) significant audit observations of earlier years.
 - (C) copies of management letters.
 - (D) analysis of significant ratios and trends.
 - (iv) Audit Procedures to obtain audit evidences include
 - (A) Compliance Procedure
 - (B) Substantive Procedure
 - (C) Both (A) and (B)
 - (D) Neither (A) nor (B)
 - (v) A Cost Auditor submits his report to
 - (A) Board of Directors
 - (B) Government

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- (C) Shareholders
- (D) Statutory Auditor

- (vi) The first Auditor of a Company shall be appointed by the Board of Directors within
- (A) 30 days from the date of registration.
 - (B) 90 days from the date of registration.
 - (C) 30 days from the date of first AGM.
 - (D) 1 year from the date of registration.

- (b) Match the following items in Column 'A' with items shown in Column 'B': 1×4=4

Column 'A'	Column 'B'
1. Responsibility of Joint Auditor	A. Qualified Audit Report
2. Unable to form an overall conclusion on Financial Statement	B. SA 230
3. Audit Report with reservations	C. SA 299
4. Audit Documentation	D. Disclaimer of Opinion

- (c) State whether the following statements are True or False: 1×4=4
- (i) Audit Programme is a part of Current Audit File.
 - (ii) Internal audit is conducted by the staff of the entity or by an independent professional appointed for that purpose.
 - (iii) The first auditor of a company is appointed by the shareholders of the company at the general meeting.
 - (iv) A company auditor can render actuarial services to his client.

Answer:

6. (a)

- (i) — D
- (ii) — C
- (iii) — C
- (iv) — C
- (v) — A
- (vi) — A

- (b)

(1)	C
(2)	D
(3)	A
(4)	B

- (c)

(i)	True
(ii)	True
(iii)	False
(iv)	False

7. (a) Define 'Audit Engagement Letter'. What are the general contents of an audit engagement letter? 2+6=8

- (b) 'Checklist and Internal Control Questionnaire are not the same.'—Discuss. 4

Answer:

7. (a) Unlike a statutory audit, in a non-statutory audit the objective and scope of an audit is not clearly described in any law. Accordingly, a misunderstanding may arise about the exact scope of the work. Thus to avoid any kind of misunderstanding or dispute it

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is in the interests of both the auditor as well as the client to exactly define the scope of the engagement. An auditor's engagement letter signifies the confirmation by the auditor of his acceptance of appointment as auditor, the documentation of the objective and scope of audit or other work, and the extent of his responsibilities to the client and the form of any reports.

Although the form and content of the engagement letter differs from client to client but in general the following references should be made in audit engagement letter:

- (vii) The objective and the scope of the engagement.
- (viii) Management's responsibility for the financial statements.
- (ix) The existence of inherent limitations of audit and resulting material misstatements that may remain undiscovered,
- (x) The need for use of services of internal auditors and/or other experts that may arise during the course of the engagement.
- (xi) The requirement of management confirmation letter as regards representations made by them concerning audit.
- (xii) Restriction of the auditor's liability, if any.
- (xiii) Basis for computation of audit fees and billing arrangements.
- (xiv) The form of reports or other communication of results of the engagement.

(b) Difference between Checklist and Internal Control Questionnaire.

Sl. No.	Basis	Check List	Internal Control Questionnaire
1	Point of Time	It is issued at the commencement of audit and reported back after completion of audit.	It can be issued at any point of time and reported back immediately.
2	Issued to	It is issued to the audit staff to be followed by them during audit and reported back at completion.	It is issued to various people at different levels in the organization.
3	Contents	It contains instructions to be followed by audit assistants.	It contains questions to be answered by the employees of the organization.
4	Objective	It works as a guideline for audit staff so that none remains unchecked.	This is used to collect the information to know about the internal control system and to evaluate the weaknesses therein.

8. (a) Who are the persons not qualified for appointment as an Auditor of a company under section 141 of the Companies Act 2013? **7**

(b) Mention the services that an Auditor cannot render u/s 144 of the Companies Act 2013. **5**

Answer:

- 8. (a)** As per Section 141(3) read with Rule 10 of Company (Audit and Auditor) Rule 2014, the following persons shall not be eligible for appointment as an auditor of a company.
- (a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
 - (b) an officer or employee of the company;
 - (c) a person who is a partner, or who is in the employment, of an officer or employee of the company;

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- (d) a person who, or his relative or partner—
- (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company, of face value not exceeding rupees one lakh;
 - (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of rupees five lakh;
 - (iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of rupees one lakh;
- (e) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;
- (f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;
- (g) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;
- (h) a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction;
- (i) any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144.
- (b) According to Section 144 of the Companies Act 2013, an auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be. However, such services shall not include the following services, whether rendered directly or indirectly to the company or its holding company or subsidiary company.
- (a) accounting and book keeping services;
 - (b) internal audit;
 - (c) design and implementation of any financial information system;
 - (d) actuarial services;
 - (e) investment advisory services;
 - (f) investment banking services;
 - (g) rendering of outsourced financial services;
 - (h) management services; and
 - (i) any other kind of services as may be prescribed.

9. (a) Distinguish between Qualified Audit Report and Adverse Report. 4

(b) Discuss the provisions of Cost Audit under Companies Act 2013. 8

Answer:

9. (a)

Qualified Report	Adverse Report
A Qualified Audit Report is one where an Auditor gives an opinion subject to certain reservations.	An Adverse Report is given when the auditor concludes that based on his examination, he does not agree with the affirmations made in the Financial Statements/Financial Report.

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The Auditor's reservation is generally Stated as: "Subject to the above, we report that the Balance Sheet shows a true and fair view."	The Auditor states that the Financial Statements do not present a true and fair view of the state of affairs and working results of the organisation.
The accounts present a true and fair view subject to certain reservations.	The accounts do not present a true and fair view on the whole.
A Qualification is made in the Audit Report when the Auditor has reservation on specific item(s) of material nature.	An Adverse Report is given when the Auditor has his reservations on the true and fair view presented by the Financial Statements.

(b) Cost Audit Provision of Section 148 of the Companies Act.

As per Section 148 —

- (1) Notwithstanding anything contained in this Chapter, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies:
Provided that the Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.
- (2) If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered under subsection (1) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order.
- (3) The audit under sub-section (2) shall be conducted by a Cost Accountant in practice who shall be appointed by the Board on such remuneration as may be determined by the members in such manner as may be prescribed:
Provided that no person appointed under section 139 as an auditor of the company shall be appointed for conducting the audit of cost records:
Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards.
Explanation. - For the purposes of this sub-section, the expression "cost auditing standards" mean such standards are as issued by the Institute of Cost and Works Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government.
- (4) An audit conducted under this section shall be in addition to the audit conducted under section 143.
- (5) The qualifications, disqualifications, rights, duties and obligations applicable to auditors under this Chapter shall, so far as may be applicable, apply to a cost auditor appointed under this section and it shall be the duty of the company to give all assistance and facilities to the cost auditor appointed under this section for auditing the cost records of the company:
Provided that the report on the audit of cost records shall be submitted by the cost accountant in practice to the Board of Directors of the company.
- (6) A company shall within thirty days from the date of receipt of a copy of the cost audit report prepared in pursuance of a direction under sub-section (2) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.
- (7) If, after considering the cost audit report referred to under this section and the information and explanation furnished by the company under sub-section (6), the Central Government is of the opinion that any further information or explanation is

Suggested Answer Syllabus 2016 Jun2017 Paper 12

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.

- (8) If any default is made in complying with the provisions of this section,—
- The company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147;
 - The cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (4) of section 147.

Eligibility for Cost Audit:

The students may also be given marks, if they state the limits for Cost Audit as per Companies (Cost Records and Audit) Amended Rules, 2014 w.e.f. 31-12-2014. The Rule states:

- Every company covered under regulated sector of Rule 3 shall get its cost records audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees fifty crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained is rupees twenty five crore or more.
- Every company covered under non-regulated sector of Rule 3 shall get its cost records audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained is rupees thirty five crore or more.
- The requirement for cost audit shall not apply to a company-
 - Whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or
 - Which is operating in Special Economic Zone.

10. Write short notes (any three):

4×3=12

- Audit of a Hospital**
- Difference between Statutory Audit and Internal Audit**
- Audit of Inventories**
- Benefits offered by Joint**

Audit Answer:

- 10. (a)** The following points are to be considered necessary for conducting an audit of Hospital.
- Check the letter of appointment to ascertain the scope of responsibilities.
 - Study the Charter or Trust Deed under which the hospital has been set up and take a special note of the provisions affecting the accounts.
 - Examine, evaluate and verify the system of internal check, internal control and determine the nature, timing and the extent of the audit procedures.
 - Vouch the entries in the Patient's Bill Register with a copies of bill issued. Test check the selected bills to see that these have been correctly prepared taking into consideration the period of stay of each patient as recorded in the Attendance Schedule.
 - Vouch the collection from patients with copies of bills and entries in Bills

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- Register. Arrears of dues should be properly carried forward and where these are deemed to be irrecoverable, they should be written off under due authorizations.
- (vi) Interest and/or dividend income should be vouched with reference to the Investment Register and Interest and Dividend warrants.
 - (vii) In case of legacies and donations which are received for specific purposes, it should be ensured that any income there from is not utilized for any other purposes.
 - (viii) Where receipts of subscription show a significant deviations from budgeted figures, it should be thoroughly inquired into and the matter be brought to the notice of the trustees or the Managing Committee.
 - (ix) Government grants or grants from local bodies should be verifies with the reference to the correspondence with the concerned authorities.
 - (x) Clear distinction should be made between the items of capital and revenue nature.
 - (xi) The capital expenditure should be incurred under proper authorization by a valid resolution of the trustees or the Managing Committee.
 - (xii) Verify the system of internal check as regards purchases and issue of stores, medicines etc.
 - (xiii) Examine that the appointment of the staff, payment of salaries etc. are duly authorized.
 - (xiv) Physically verify the investments, fixed assets and inventories.
 - (xv) Check that adequate depreciation has been provided on all the depreciable assets.

(b)

Sl.No.	Basis	Statutory Audit	Internal Audit
1	Appointing Authority	Statutory Auditor is appointed by the shareholder in the general meeting.	Internal Auditor is appointed by the Board.
2	Scope of the work	The scope of work is defined in the Companies Act.	The scope of work includes the adherence of management policies and procedures and identifies the weakness in the internal control.
3	Removal of auditor	Statutory Auditor can be removed by the shareholders.	Internal Auditor can be removed by the Board.
4	Remuneration	It is fixed by the shareholders.	It is fixed by the board.
5	Audit report	It is submitted to the appointing Authority.	It is submitted to the Board as a suggestion to improve weakness in the internal control.

- (c) Inventories are tangible property held for sale in the ordinary course of business, or in the process of production for such sale, or for consumption in the production of goods or services for sale, including maintenance supplies and consumable stores and spare parts meant for replacement in the normal course. Inventories normally comprise raw materials including components, work-in-process, finished goods including by-products, maintenance supplies, stores and spare parts, and loose tools.

Inventories normally constitute a significant portion of the total assets, particularly in the case of manufacturing and trading entities as well as some service rendering entities. Audit of inventories, therefore, assumes special importance.

The following features of inventories have an impact on the related audit procedures:

- (i) By their very nature, inventories normally turn over rapidly.

Suggested Answer Syllabus 2016 Jun2017 Paper 12

- (ii) Inventories are susceptible to obsolescence and spoilage. Further, some of the items of inventory may be slow-moving while others may follow a seasonal pattern of movement.
- (iii) Inventories are normally movable in nature, although there may be some instances of immovable inventories also, e.g., in the case of an entity dealing in real-estate.
- (iv) All the items of inventory may not be located at one place but may be held at different locations such as factories and warehouses, or with third parties such as selling agents.
- (v) The individual items of inventory may not be significant in value, but taken together, they normally constitute a significant proportion of total assets and current assets of manufacturing, trading and certain service entities.
- (vi) Physical condition (e.g., stage of completion of work-in-process in certain industries) and existence of certain items of inventories may be difficult to determine.
- (vii) Valuation of inventories may involve varying degrees of estimation, including expert opinions, e.g., in the case of jewelry.

(d) Benefits of Joint Audit are –

- (i) Lower workload: In large organizations where auditing is a mammoth task, the workload gets divided among all the auditors and hence reduce.
- (ii) Timely completion of work: Huge auditing work can be completed on timely basis which is divided among joint auditors.
- (iii) Sharing of expertise: Expertise of different auditors gets shared if there are several auditors.
- (iv) Improved quality of services: Since specific auditors concentrate on their specialised areas of operation, hence improving quality of services.
- (v) Healthy competition: Healthy competition increases efficiency and productivity.
- (vi) Quality of performance: Quality of performance increases with healthy competition and sharing of knowledge.

**INTERMEDIATE EXAMINATION
GROUP - II
(SYLLABUS 2016)
SUGGESTED ANSWERS TO QUESTIONS
DECEMBER - 2017**

Paper-12 : COMPANY ACCOUNTS AND AUDIT

Time Allowed : 3 Hours

Full Marks : 100

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

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

The Question paper has two Sections, A and B. Both sections are to be answered as per instruction given against each.

Section – A (Company Accounts)

Answer Question No. 1 and any three from Question No. 2, 3, 4 and 5.

1. (a) Choose the correct alternative: 1×6=6
- (i) While preparing Cash Flow Statement of XY Ltd., a finance company, interest received on loans should be shown as
(A) Cash Flow from Operating Activities
(B) Cash Flow from Investing Activities
(C) Cash Flow from Financing Activities
(D) Cash and Cash Equivalent
- (ii) As per Schedule III Current Maturities of Long Term Borrowings should be shown under
(A) Current Assets in Balance Sheet
(B) Non-current Liability in Balance Sheet
(C) Current Liabilities in Balance Sheet
(D) Other Expenses in Statement of Profit and Loss
- (iii) Which of the following is not a criterion for selecting a reportable segment under AS 17?
(A) 10% or more of aggregate revenue of all segment
(B) 10% or more of aggregate assets of all segment
(C) 10% or more of aggregate liabilities of all segment
(D) 10% or more of aggregate profit or loss of all segment (higher of the two)
- (iv) Which of the following is not a mandatory financial statement of a General Insurance Company as per IRDA regulations?
(A) Revenue Account
(B) Profit and Loss Account
(C) Balance Sheet
(D) Cash Flow Statement
- (v) A Banking Company needs to transfer a minimum of _____ its profit to reserve fund.
(A) 10%
(B) 15%
(C) 20%

Suggested Answer Syl2016 Dec2017 Paper 12

(D) 25%

(vi) In case of an electricity company, depreciation on assets is calculated based on the rates notified by

- (A) Companies Act 2013
- (B) State Electricity Commission
- (C) Central Electricity Regulatory Commission
- (D) Income Tax Act 1961

(b) Match the following items in Column 'A' with items shown in Column 'B': 1×4=4

	Column 'A'		Column 'B'
1.	Guaranteed Residual Value (GRV)	A.	Capital Reserve
2.	Premium on Redemption of Preference shares	B.	AS 11
3.	Exchange Difference	C.	Securities Premium A/C
4.	Profit on reissue of forfeited shares	D.	AS 19

(c) State whether the following statements are True or False: 1×4=4

- (i) In case of an underwriting arrangement, marked applications are those applications that bear the stamp of the issuing company.
- (ii) In case the leaseback is a finance lease, the sale proceeds in excess of the carrying amount should be immediately recognized in the Income Statement.
- (iii) Issue of fully paid up bonus shares increases the total shareholders fund.
- (iv) Interest and dividend received form a part of financing cash flow.

Answer:

1. (a)

(i)	A
(ii)	C
(iii)	C
(iv)	D
(v)	D
(vi)	C

(b)

1	D
2	C
3	B
4	A

(c)

(i)	F
(ii)	F
(iii)	F
(iv)	F

2. (a) R Ltd. wants to buy-back 100000 equity shares of ` 10 each at a price of ` 20 each on 01.04.2017. The buy-back is allowed in its articles of association and the company has obtained necessary approval from the shareholders. The company has sufficient bank balance to make the payment for buy-back of shares.

The following information is available as on 31.03.2017:

Equity Share Capital (₹ 10 each fully paid)	50,00,000
General Reserve	60,00,000
Dividend Equalization Reserve	10,00,000
Balance of Profit and Loss (Cr.)	5,00,000
10% Debentures (₹ 100 each)	75,00,000
Bank Loan	40,00,000
Current Liabilities	66,00,000

Verify whether the buy-back plan of the company meets the conditions specified by the Companies Act 2013 as regards to the maximum amount of buy-back. Also pass necessary journal entries in the books of the company to give effect of the process, if the plan is found to be in place. 9

- (b) Z Ltd. sold goods to a US Company for US \$ 50000 on 10.02.2017 and realized the due on 30.06.2017. Z Ltd. closes the books of accounts on 31st March. Exchange rates were as follows:

Date	Rate
10.02.2017	65.40
31.03.2017	66.00
30.06.2017	65.80

Calculate the exchange loss/gain the reporting date and on the settlement date and comment on their treatment as per AS 11. 3

Answer:

2. (a) Determination of maximum buyback permissible as per Companies Act 2013:

1. Shares Outstanding Test: Max. Permissible Limit = 25% of Outstanding Shares

Particulars	
Total number of shares outstanding	500000
25% of the shares outstanding	125000

2. Resource Test: Max. Permissible Limit = 25% of Paid up Capital plus Free Reserves

Particulars	
Equity share capital (₹)	50,00,000
Free Reserve (₹) (General Reserve + DER +P/L)	75,00,000
Paid up Capital plus Free Reserves (₹)	125,00,000
25% of Paid up Capital plus Free Reserves (₹)	31,25,000
Buy back price per share (₹)	20
No. of shares that can be bought back (31,25,000/20)	1,56,250

3. Debt Equity Ratio Test: Debt after buyback cannot exceed twice the paid up capital plus free reserves.

Particulars	
Total Debt (₹) (7500000+4000000+6600000)	181,00,000
Minimum Equity to be maintained after buyback in the ratio 2:1 (₹)	90,50,000
Paid up capital plus free reserves before buyback (₹)	125,00,000
Future Paid up capital plus free reserves (₹) (see working note: 1) (125,00,000 - 11,50,000)	113,50,000
Maximum permissible buyback (₹) (113,50,000-90,50,000)	23,00,000
Buy back price per share (₹)	20
No. of shares that can be bought back	1,15,000

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Summary of three test results:

	No. of Shares
Permissible Buyback as per -	
Share Outstanding Test	125000
Resource Test	156250
Debt-Equity Ratio Test	115000
Maximum permissible buyback (least of the three)	115000
Actual buyback plan	100000

Since actual buyback proposed is below the permissible limit, the company can buy back 100000 shares at ₹ 20 each.

Working Note 1:

In case buyback of shares is done out of free reserves and securities premium, a company is required transfer a sum equal to the nominal value of the shares buyback to Capital Redemption Reserve A/C. Thus shareholders' fund after buyback includes CRR. Now CRR is not a free reserve. Hence it cannot form part of paid up capital plus free reserve after buyback.

Let nominal value of shares bought back is x. Then CRR after buyback is x. Moreover total premium on buyback = x (₹ 10 face value and ₹ 20 buyback price, so premium on buyback ₹ 10). So total amount to be deducted from shareholders' fund for buyback = x (capital) + x (premium) = 2x. Moreover free reserves to be reduced by x.

Total paid up capital plus free reserves after buyback = 125,00,000 – x (i.e. CRR) – 2x (i.e. buyback proceeds)

Conditionally, $125,00,000 - x - 2x = 90,50,000$, or, $x = 11,50,000$
Nominal value of buyback = 11,50,000 (i.e. CRR)

Journal

Date	Particular		Dr. (₹)	Cr. (₹)
1.4.2017	Equity Share Buyback A/c	Dr.	20,00,000	
	To Bank A/c			20,00,000
	(Being buyback of 100000 shares of ₹ 10 each at ₹ 20 per share.)			
1.4.2017	Equity Share Capital A/c	Dr.	10,00,000	
	General Reserve A/c		10,00,000	
	To Equity Share Buyback A/c			20,00,000
	(Being cancellation of shares bought back and premium on buyback provided out of General Reserve)			
1.4.2017	General Reserve A/c	Dr.	10,00,000	
	To Capital redemption Reserve A/c			10,00,000
	(Being nominal value of shares bought back transferred to CRR)			

- (b) As per AS 11, transactions such as purchase, sales etc. are to be recorded in the books of accounts at the exchange rate prevailing on the date of transaction. Any exchange gain/loss arising subsequently is to be transferred to Income Statement. Value of the goods sold = \$ 50000

Exchange rate on the date of transaction = ₹ 65.40/\$

So sales to be recorded in the books = $50000 \times 65.40 = ₹ 3,270,000$

Exchange rate on the date of reporting (31.03.17) = ₹ 66.00/\$ Value of the receivables on 31.03.17 = $5000 \times 66 = ₹ 33,00,000$

Exchange gain on 31.03.2017 = $(33,00,000 - 32,70,000) = ₹ 30,000$, to be credited to

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P/L A/c.

Exchange rate on the date of settlement (30.06.17) = ` 65.80/\$

Exchange loss on 30.06.17 = $50000 \times (66.00 - 65.80) = ` 10,000$ to be debited to P/L A/c.

3. (a) On the basis of the following information provided by X Ltd. prepare a Cash Flow Statement for the year ended on 31st March 2017.
- (i) X Ltd. sold all the goods for cash only and purchased the goods in credit only.
 - (ii) The company earned a Gross Profit of ` 4,00,000 with a Gross Profit Ratio of 25%.
 - (iii) The closing inventory was higher than the opening inventory by ` 20,000.
 - (iv) The company paid ` 4,50,000 as wages and ` 90,000 as office expenses during the year.
 - (v) Balance of Suppliers accounts on 31.03.2016 were higher than the balance on 31.03.2017 by ` 30,000.
 - (vi) Tax paid by the company amounts to ` 80,000 while provision for taxation was ` 70,000.
 - (vii) The company repaid bank loan of ` 1,75,000 which included interest of ` 15,000.
 - (viii) Dividend paid during the year ` 50,000 (including dividend distribution tax).
 - (ix) X Ltd. sold investments of ` 6,00,000 at a profit of ` 40,000.
 - (x) Depreciation charged on fixed assets ` 1,20,000.
 - (xi) Furniture purchased during the year ` 2,00,000.
 - (xii) Cash and Cash Equivalents as on 31.03.2016 was ` 1,00,000.
 - (xiii) Cash and Cash Equivalents as on 31.03.2017 was ` 4,95,000. 8
- (b) From the following information for a Bank calculate the amount of discount to be transferred to the Statement of Profit and Loss.
- (i) Rebate on Bills Discounted (as on 01.04.2016) ` 28,000. Discount Received ` 1,02,000.
 - (ii) The following bills have been discounted during the year:

Also pass the necessary journal entry for the unexpired discount as on 31.03.2017.

3+1=4

Answer:

Amount of Bill (`)	Rate of Discount	Due Date (including grace days)
65,000	13%p.a.	June 14,2017
1,50,000	15% p.a.	July 19,2017
4,30,000	12% p.a.	August 30,2017

3. (a) **Workings Note 1:**

Gross Profit @ 25% on Sales = ` 4,00,000, So Total Sales = ` 16,00,000 (all for cash) COGS = Sales - G.P = ` 12,00,000

Let closing inventory is x and hence opening inventory is (x - 20,000) Now,

COGS = Op. Inventory + Purchase + Wages - Cl. Inventory

Or. $12,00,000 = (x - 20,000) + \text{Purchase} - 4,50,000 - x$

Or. Purchase = 7,70,000.

Working Note 2:

Let closing balance of suppliers = y, hence opening balance = (y + 30,000)

Suppliers' Account

Dr.	`	Cr.	`
To Payment to Suppliers (Bal. Fig.)	8,00,000	By Balance b/f	Y + 30,000
To Balance c/f	y	By Purchase	7,70,000
	y + 8,00,000		y + 8,00,000

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Cash Flow Statement for the year ended on 31.03.2017

Particulars	\`	\`
A. Cash Flow from Operating Activities		
Cash Sales		16,00,000
(-) Cash payments		
Payment to suppliers	8,00,000	
Wages paid	4,50,000	
Office expenses paid	90,000	13,40,000
		2,60,000
(-) Income tax paid		80,000
		1,80,000
B. Cash Flow from Investing Activities		
Sale of Investments	6,40,000	
Purchase of furniture	(2,00,000)	4,40,000
C. Cash Flow from Financing Activities		
Bank loan repaid with interest	(1,75,000)	
Dividend paid with distribution tax	(50,000)	(2,25,000)
(A+B+C)		3,95,000
D. Opening Cash and Cash Equivalent		1,00,000
E. Closing Cash and Cash Equivalent		4,95,000

(b) Calculation for rebate on bill discounted

Bill Due Date	Days after due date	Amount (₹)	Rate	Discount
14.06.17	75	65,000	13%	1,736
19.07.17	110	1,50,000	15%	6,781
10.08.17	132	4,30,000	12%	18,661
			Total	27,178

Amount to be credited to P/L = 28000 + 102000 - 27178 = ₹ 102822.

Journal Entry:

Interest and Discount A/C	27,178	
To Rebate on Bill Discounted A/C		27,178

4. ABC Ltd. provides the following Trial Balance as on 31st March 2017:

Particulars	Dr. Balances (₹)	Cr. Balances (₹)
Equity Share Capital: 350000 shares of ₹ 10 each fully paid		35,00,000
10% Debentures		3,00,000
Motor Van	4,00,000	
Machinery	20,00,000	
Land and Building	12,00,000	
12% Long Term Govt. Securities	2,00,000	
Sales		60,00,000
Sales Return	3,00,000	
Interest on Debenture	22,500	
Purchase	36,00,000	
Purchase Returns		4,00,000
Opening Stock	3,00,000	
Discount	7,500	
Carriage Outward	1,50,000	
Rent and Rates	50,000	
Income from Govt. Securities		24,000

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Trade Receivables	10,00,000	
Trade Payables		2,00,000
Advertisement	1,50,000	
Bad Debt	20,000	
Salaries	6,72,000	
Misc. Expenditure	30,000	
Contribution to P.F. and Gratuity Funds	1,00,000	
Cash at Bank and in hand	2,22,000	
Total	1,04,24,000	1,04,24,000

Additional Information:

- (i) Closing Stock as on 31st March 2017 was ` 3,50,000.
- (ii) Depreciation Rates: Motor Vehicle 10%, Machinery 20% and Land & Building 5%.
- (iii) Misc. expenditure includes ` 20,000 as audit fees.
- (iv) Interest on debenture is payable quarterly and the last quarter's interest is yet to be paid.
- (v) Trade receivables include a sum of ` 25,000 due from Mr. X who has become insolvent and only 25 paise in a rupee is expected to be recoverable from him.
- (vi) Create a provision for doubtful debt @ 2% on trade receivables.
- (vii) Provide for income tax ` 1,50,000.

Prepare a Statement of Profit and Loss for the year ended on 31st March 2017 and a Balance Sheet as on that date. 12

Answer:

4. Notes to Accounts:

1. Employee Benefit Expenditure	`
Salaries	6,72,000
Contribution to P.F.	1,00,000
	7,72,000

2. Finance Cost	`
Interest on loan	22,500
Outstanding Interest	7,500
	30,000

3. Other Expenditure	`
Discount	7,500
Carriage	1,50,000
Rent	50,000
Advertisement	1,50,000
Bad Debt	20,000
Audit fees	20,000
Misc. Exp.	10,000
Provision for B/D	38,250
	4,45,750

4. Trade Receivable	`
Total Receivable	10,00,000
(-) Provision @ 2%	38,250
	9,61,750
Provision = $25000 \times 0.75 + (1000000 - 25000) \times 0.02$	38,250

5. Fixed Assets	Motor Van	Machine	L&B
Balance	4,00,000	20,00,000	12,00,000

Suggested Answer Syl2016 Dec2017 Paper 12

(-) Depreciation	40,000	4,00,000	60,000
	3,60,000	16,00,000	11,40,000
Total Fixed Assets			31,00,000
Depreciation			5,00,000

Statement of Profit and Loss for the year ended on 31.03.2017

Particulars	Note	`
I. Revenue from operation (sales less returns)		57,00,000
II. Other Income (Income from investment)		24,000
III. Total revenue		57,24,000
IV. Expenses:		
Purchase		32,00,000
Changes in inventory i.e. opening less. Closing		(50,000)
Employee Benefit expenses	1	7,72,000
Finance cost	2	30,000
Depreciation	5	5,00,000
Other expenses	3	4,45,750
		48,97,750
V. Profit before exceptional and extraordinary items and tax		8,26,250
VI. Exceptional items		Nil
VI Profit before extraordinary items and tax		8,26,250
VII. Extraordinary items		Nil
VIII. Profit before tax		8,26,250
IX. Tax (provision for tax)		1,50,000
X. Profit after tax		6,76,250

Balance Sheet as on 31.03.2017

I. Equity and Liabilities	Note	`
1. Shareholders' Funds		
(a) Share Capital		35,00,000
(b) Reserve and Surplus (Balance of Profit)		6,76,250
2. Share Application money pending allotment		Nil
3. Non-current liabilities (10% Debentures)		3,00,000
4. Current Liabilities		
Trade Payable		2,00,000
Outstanding interest		7,500
Provision for Tax		1,50,000
Total		48,33,750
II. Assets		
1. Non-current Assets		
(a) Fixed Assets (Tangible)	5	31,00,000
(b) Non-current Investment (12% L.T. Govt. Securities)		2,00,000
2. Current Assets		
Inventories		3,50,000
Trade Receivable	4	9,61,750
Cash and cash equivalent		2,22,000
Total		48,33,750

5. Write short note (any three):

4×3=12

- (a) Operating Lease and Finance Lease
- (b) Right Issue of Shares
- (c) Provisioning Arrangements for Non-Performing Assets
- (d) Money Received against Share Warrants

Answer:

5. (a) Operating Lease and Finance Lease

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

An operating lease is a lease other than a finance lease.

As per AS 19, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

(b) Right Issue of Shares

Where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid-up share capital on those shares by sending a letter of offer subject to the following conditions, namely:—

- (i) the offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;
- (ii) unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice referred to in clause (i) shall contain a statement of this right;
- (iii) after the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and the company.

(c) Rates of Provisioning for Non-Performing Assets and Restructured Advances

Category of Advances	Rate (%)
Standard Advances	
(a) Direct advances to agricultural and SME	0.25
(b) Advances to Commercial Real Estate (CRE) Sector	1.00
(c) All other loans	0.40
Sub-standard Advances	
Secured Exposures	15
Unsecured Exposures in respect of Infrastructure loan accounts where certain safeguards such as escrow accounts are available.	20
Unsecured other loans	25
Doubtful Advances - Unsecured Portion	100
Doubtful Advances - Secured Portion	
For Doubtful upto 1 year	25
For Doubtful > 1 year and upto 3 years	40
For Doubtful > 3 years	100

(d) Money received against Share Warrants

- As per Sch. III Disclosure Requirements, it is to be shown as a separate line item on the face of Balance Sheet.
- In case of Listed Companies, Share warrants are issued to Promoters & others in

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terms of the Guidelines for Preferential Issues viz. SEBI (Issue of Capital and Disclosure Requirements), Guidelines, 2009.

- Effectively, Share Warrants are amounts which would ultimately form part of the Shareholder's Funds. Since Shares are yet to be allotted against the same, these are not reflected as part of Share Capital, but as a separate line - item.

Section - B (Audit)

Answer Question No. 6 and any three from Question No. 7, 8, 9 and 10.

6. (a) Identify the correct alternative: 1×6=6

- (i) An auditor should submit a Disclaimer of Opinion when
- (A) he is satisfied with the truth and fairness of financial statements.
(B) he has certain reservations as to the presentation of truth and fairness in financial statements.
(C) some material information is not available.
(D) the effect of any disagreement with the management is not so material.
- (ii) In case of a company other than a Government Company, any casual vacancy in the post of auditor is to be filled by the
- (A) Board of Directors
(B) Managing Director
(C) Comptroller and Auditor General (CAG)
(D) Shareholders
- (iii) An Audit Committee should have a minimum of _____ number of directors.
- (A) 4
(B) 3
(C) 5
(D) 6
- (iv) SA 530 stands for
- (A) Audit Documentation
(B) Audit Sampling
(C) Responsibility of Joint Auditor
(D) Agreeing the terms of Audit Engagements
- (v) Unpaid dividend standing at the credit of Unpaid Dividend A/C should be transferred to Investor Education and Protection Fund after _____ years of its remaining unpaid.
- (A) six
(B) eight
(C) seven
(D) five
- (vi) Which of the following services cannot be rendered by an auditor as per Companies Act 2013?
- (A) Vouching
(B) Verification of assets and liabilities
(C) Issuing certificates on relevant matters
(D) Providing investment advisory services

(b) Match the following items in Column 'A' with items shown in Column 'B': 1×4=4

Column 'A'		Column 'B'	
1.	Appointment of Company Auditor	A.	Current Audit File
2.	Remuneration of a Company Auditor	B.	Section 139 of Companies Act 2013
3.	Different accounting schedules such as schedule of debtors and creditors	C.	Permanent Audit File
4.	Analysis of significant ratios and trends	D.	Section 142 of Companies Act 2013

(c) State whether the following statements are true or false: 1×4=4

- (i) As per Section 138 of Companies Act 2013, no private company or unlisted

company is required to appoint an internal auditor.

- (ii) Audit Memorandum is a detailed plan of audit work clearly specifying the responsibilities of the audit staff and time allotted to perform the same.
- (iii) Substantive procedure is also known as test of control.
- (iv) Cut-off procedures are adopted to allocate revenues and costs to the proper accounting period.

Answer:

6. (a) (i) C
(ii) A
(iii) B
(iv) B
(v) C
(vi) D

- (b) (1) B
(2) D
(3) A
(4) C

- (c) (i) False
(ii) False
(iii) False
(iv) True

7. (a) Discuss the various methods of obtaining audit evidences. How will you assess the reliability of audit evidences obtained? 5+3=8

- (b) 'An auditor applies various techniques to evaluate the internal control system of an organization'— Discuss. 4

Answer:

7. (a) An auditor applies the following methods for obtaining sufficient and appropriate audit evidence.
- (i) Inspection: Inspection involves examining records or documents, whether internal or external, in paper form or otherwise or a physical verification of a tangible asset. Inspection can provide reliable audit evidence depending on their nature and source and effectiveness of the internal control over their generation and processing.
 - (ii) Observation: Observation consists of looking at a process or procedure being performed by others on a real time basis. For example the auditor may observe the inventory counting by the entity's personnel and obtain evidence that it is done correctly.
 - (iii) External Confirmation: External confirmation represents audit evidence obtained by the auditor as a direct written response from a third party, in paper form or by electronic or any other medium. For example, confirmation from the customer about the terms of agreement.
 - (iv) Recalculation: Recalculation consists of checking the mathematical accuracy of documents or records. This may be performed manually or electronically.
 - (v) Reperformance: Reperformance involves auditor's independent execution of procedures or controls that were originally performed as part of entity's internal control.
 - (vi) Analytical Procedures: Analytical procedures involve evaluation of financial information by studying possible relationships among both financial and non- financial data and investigating identified fluctuations from previous years that are inconsistent.

(vii) Inquiry: Inquiry consists of seeking information, both financial and non-financial, from knowledgeable persons within or outside the entity. Inquiries may range from formal written inquiries addressed to external parties to informal inquiries addressed to client's staff.

As per SA 500, reliability of audit evidence depends on its source (whether internal or external) and nature (whether visual, documentary or oral). However, the following generalizations may be considered useful while assessing the reliability of audit evidence.

- (i) Evidence obtained from independent and external sources are more reliable.
- (ii) Internal evidence becomes more reliable when the related internal control over its preparation and maintenance is effective.
- (viii) Evidence obtained directly by the auditor is more reliable than those obtained indirectly or by inference.
- (ix) Evidence in documentary form is usually more reliable than oral representation.
- (x) Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles or documents that have been filmed or digitized. In order to be certain about the reliability of audit evidence in relation to a particular matter, an auditor should try to obtain evidence from various sources. In case there appears any inconsistency, the auditor must obtain additional evidence by conducting other audit procedures.

(b) Techniques for Evaluation of Internal Control System

- i. Narrative Record: It is a complete and exhaustive description of the system. It is appropriate in circumstances where a formal control system is lacking, like in the case of small businesses. Gaps in the control system are difficult to identify using a narrative record.
- ii. Check List: It is a series of instructions that a member of the audit staff is required to follow. They have to be signed/ initialed by the audit assistant as proof for having followed the instructions given. A specific statement is required for every weakness area.
- iii. Flow Chart: It is a pictorial representation of the internal control system depicting its various elements such as operations, processes and controls, which help in giving a concise and comprehensive view of the organization's working to the auditor. The internal control evaluation process becomes easier through a flow chart as a broad picture of all the controls involved can be gauged in a glimpse.
- iv. Internal Control Questionnaire: This is the most widely used method for collecting information regarding the internal control system and involves asking questions to various people at different levels in the organization. The questionnaire is in a pre- designed format to ensure collection of complete and all relevant information. The questions are formed in a manner that would facilitate obtaining full information through answers in "Yes" or "No".

8. (a) Discuss the provisions under Section 139(7) relating to the appointment of the first auditor in a Government Company. How can an auditor, duly appointed by a company, be removed before expiry of his term? 4+3=7

(b) Discuss the duty of an auditor to report certain matters in the audit report u/s 143(3). 5

Answer:

8. (a) Appointment of First Auditor in Case of a Government Company [Section 139(7)]:

- (i) In the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller, and Auditor-General of India within sixty days from the date of

registration of the company.

- (ii) In case the Comptroller and Auditor-General of India does not appoint such auditor within the aforesaid period, the Board of Directors of the company shall appoint such auditor within the next thirty days.
- (iii) Further, in the case of failure of the Board to appoint such auditor within the next thirty days, it shall inform the members of the company who shall appoint such auditor within sixty days at an extraordinary general meeting.
- (iv) The auditor, so appointed, shall hold office till the conclusion of the first annual general meeting.

Removal of Auditor before the Expiry of His Term:

The auditor appointed under section 139 may be removed from his office before the expiry of his term subject to the fulfillment of the following conditions under Section 140(1) read with Rule 7 of CAAR 2014.

- (i) An application to the Central Government for removal of the auditor shall be made in Form ADT-2. The application shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
 - (ii) The application shall be made to the Central Government within thirty days of the resolution passed by the Board.
 - (iii) The company shall hold the general meeting within sixty days of receipt of approval of the Central Government for passing the special resolution for removal of the said auditor.
 - (iv) The auditor concerned shall be given a reasonable opportunity of being heard.
- (b) Duty Regarding Inclusion of Certain Matters in the Audit Report:** As per Section 143(3), the company auditor, in his audit report, shall clearly state -
- (i) Whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements.
 - (ii) Whether, in his opinion, proper books of account as required by law have been kept by the company and proper returns adequate for the purposes of his audit have been received from branches not visited by him.
 - (iii) Whether the report on the accounts of any branch office of the company audited by a person other than the company's auditor has been sent to him and the manner in which he has dealt with it in preparing his report.
 - (iv) Whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns.
 - (v) Whether, in his opinion, the financial statements comply with the accounting standards.
 - (vi) The observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company.
 - (vii) Whether any director is disqualified from being appointed as a director under sub-section (2) of section 164.
 - (viii) Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.
 - (ix) Whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

(9) (a) What is the procedure of appointing a cost auditor in a company? 4

(b) Discuss the basic elements of an audit report. 8

Answer:

(9) (a) Procedure for Appointment of a Cost Auditor

The cost auditor is to be appointed by the Board of Directors (BOD) on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors.

The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2 along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors (BOD) within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

(b) The Basic Elements of the Auditors' Report are –

- (i) Title: The Auditor's Report should have an appropriate title i.e. "Auditor's Report". It should be distinguished from other Reports, e.g. reports of officers of the entity, Board of Directors.
- (ii) Addressee: The Auditor's Report should be appropriately addressed as required by the circumstances of the engagement and applicable laws and regulations. Ordinarily, the Auditor's Report is addressed to the authority appointing the Auditor.
- (iii) Opening or Introductory Paragraph:
 - (a) The Auditor's Report should identify the Financial Statements of the entity that have been audited, including the date of and period covered by the Financial Statements.
 - (b) The Report should include a Statement that the Financial Statements are the responsibility of the entity's management and a Statement that the responsibility of the Auditor is to express an opinion on the Financial Statements based on the audit.
- (iv) Scope Paragraph:
 - (a) The Auditor's Report should describe the scope of the audit by stating that the audit was conducted in accordance with standards on auditing generally accepted in India.
 - (b) The Report should include a statement that the audit was planned and performed to obtain reasonable assurance whether the Financial Statements are free of material misstatement.
 - (c) The Auditor's Report should describe the Audit as including examining, on a test basis, evidence to support the amounts and disclosures in Financial Statements, assessing the accounting principles used in the preparation of the Financial Statements, assessing significant estimates made by management, in the preparation of Financial Statements, & evaluating the overall position of Financial Statements.
 - (d) The Report should include a statement by the Auditor that the audit provides a reasonable basis for his opinion.
- (v) Opinion Paragraph: The Opinion paragraph of the Report should indicate the Financial Reporting framework used to prepare the Financial Statements. It should state the Auditor's opinion as to whether the Financial Statements give a true and fair view in accordance with the financial reporting framework and, where appropriate, whether the Financial Statements comply with the statutory requirements.

- (vi) **Date of the Report:** The date of an Auditor's Report is the date on which the Auditor signs the Report expressing an opinion on the Financial Statements. The Auditor should not date the Report earlier than the date on which the Financial Statements are signed or approved by Management.
- (vii) **Place of Signature:** The Report should name the specific location, which is ordinarily the city where the Audit Report is signed.
- (viii) **Auditor's Signature:** The Report should be signed by the Auditor in his personal name. Where a Firm is appointed as the Auditor, the Report should be signed in the personal name of the Auditor and in the name of the Audit Firm. The Partner/ Proprietor signing the Report should mention his ICAI Membership Number.

10. Write short notes (any three):

4×3=12

- (a) Audit of Municipalities and Panchayats**
- (b) Audit of Bonus share issued by a company**
- (c) Branch Auditor**
- (d) Declaration of dividend by a company u/s 123**

Answer:

10. (a) Audit of Municipalities and Panchayats

The major objective of audit of Municipalities and Panchayats are enumerated below;

- (i) To ensure on the fairness and correctness of contents in the Financial Statement
- (ii) To report on adequacy of internal control
- (iii) To ensure value of money is fully received on amount spent.
- (iv) To detect the frauds and errors.

The following points are to be considered necessary for carrying on audit of Municipalities and panchayats (Local Bodies);

- (i) To ensure that the expeditors incurred conform to the relevant provision of the law and is in accordance with the financial Rules and regulation formed by the compliant authority.
- (ii) To ensure that sanction is accorded by the competent authority either special or general.
- (iii) To ensure that there is provision of funds for expenditure and is authorized by competent Authority.
- (iv) To ensure that where huge financial expenditure is made is run economically and is expected to contribute growth.

(b) Audit of bonus share issued by a company (Section 63)

The auditor should take note of the following points:

- (i) Confirm that issue of Bonus Share was authorized by articles.
- (ii) Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained
- (iii) Check that the company has issue fully paid-up bonus shares to its members only.
- (iv) Confirm that the issue of bonus shares shall not be made by capitalizing reserves created by the revaluation of assets.
- (v) Check whether the company has made any default in payment of interest or principal in respect of fixed deposits or debt securities issued by it.
- (vi) Check whether the company has made any default in payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus.
- (vii) Whether the partly paid-up shares are made fully paid-up.

(viii) Check whether the bonus shares shall not be issued in lieu of dividend.

(c) Branch Auditor

Branch Auditor may be appointed under Section 139 of 2013 Act to audit the Accounts of Branch Office of a Company. Such person, who is appointed as Branch Auditor, should be qualified for appointment as an auditor of the Company under 2013 Act. The Branch Auditor shall prepare a report on the Accounts of the Branch examined by him and send it to Company's Auditor. The report of Branch Auditor will be dealt by Company's auditor in the manner deemed fit. Branch auditor is responsible to report fraud, as applicable to Company's auditor.

(d) Declaration of dividend by a company u/s 123

No dividend shall be declared or paid by a company for any financial year except —

- (a) out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of subsection (2), or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in accordance with the provisions of that sub-section and remaining undistributed, or cut of both; or
- (b) out of money provided by the Central Government or a State Government for the payment of dividend by the company in pursuance of a guarantee given by that Government.

Provided that a company may, before the declaration of any dividend in any financial year, transfer such percentage of its profit for that financial year as it may consider appropriate to the reserves of the company.

Provided further that where, owing to inadequacy or absence of profits in any financial-year, any company proposes to declare dividend out of the accumulated profits earned by it in previous/ears and transferred by the company to the reserves, such declaration of dividend shall not be made except in accordance with such rules as may be prescribed in this behalf.

Provided also that no dividend shall be declared or paid by a company from its reserves other than free reserves.

Provided also that no company shall declare dividend unless carried over previous losses and depreciation net provided in previous year or years are set off against profit of the company for the current year.

For the purposes of clause (a) of sub-section (1), depreciation shall be provided in accordance with the provisions of Schedule II.

**INTERMEDIATE EXAMINATION
GROUP - II
(SYLLABUS 2016)
SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2018**

Paper-12 : COMPANY ACCOUNTS AND AUDIT

Time Allowed : 3 Hours

Full Marks : 100

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

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

The Question paper has two Sections, A and B. Both sections are to be answered as per instruction given against each.

**Section – A
(Company Accounts)**

Answer Question No. 1 and any three from Question No. 2, 3, 4 and 5.

1. (a) Choose the correct alternatives: 1×6=6
- (i) Premium on redemption of redeemable preference shares can be paid out of
 - (A) Capital Redemption Reserve Account
 - (B) Existing Shares Premium Account
 - (C) Proceed of fresh issue of shares
 - (D) All of the above
 - (ii) Which of the following is not a component of Cash Flow Statement?
 - (A) Cash payments to suppliers for goods and services
 - (B) Charging of Depreciation
 - (C) Cash advances and loans made to third parties
 - (D) Cash repayments of amounts borrowed
 - (iii) The Electricity Act, 2003 replaced which of the following three existing legislations?
 - (A) The Indian Electricity Act, 1910
 - (B) The Electricity (Supply) Act, 1948
 - (C) The Electricity Regulatory Commissions Act, 1998
 - (D) All of the above
 - (iv) General Ledger of a Banking Company does not contain
 - (A) Control Accounts of all personal ledgers
 - (B) Assets Accounts
 - (C) Contra Accounts
 - (D) Balance Sheet
 - (v) Which of the following is a principle of insurance?
 - (A) Principle of indemnity
 - (B) Insurable interest
 - (C) Principle of uberrimae fidei
 - (D) All of the above
 - (vi) Underwriting commission payable on the shares taken up by the promoters is

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- (A) 2.5%
 (B) 2%
 (C) 5%
 (D) Nil

(b) Match the following items in Column 'A' with items shown in Column 'B': 1x4=4

	Column 'A'		Column 'B'
1.	Government Grants	A.	Capital Redemption Reserve
2.	Redemption of Debentures	B.	AS 16
3.	Un-guaranteed Residual Value	C.	AS 12
4.	Borrowing Cost	D.	AS 19

(c) State whether the following statements are True or False: 1x4=4

- (i) Marked applications are those applications which bear the stamp of an underwriter.
 (ii) In order to spread the risk of under-subscription, the principal underwriters may enter into subsidiary agreements with sub-leasees.
 (iii) When debentures are issued at discount, it is prudent to write off the loss during the life of debentures.
 (iv) Any surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax.

Answer:

1. (a)

(i)	B
(ii)	B
(iii)	D
(iv)	D
(v)	D
(vi)	D

(b)

1	C
2	A
3	D
4	B

(c)

(i)	T
(ii)	F
(iii)	T
(iv)	T

2. (a) On 01.01.2017 Jay Ltd. had 2,000, 12% Debentures of ₹ 100 each. On 01.05.2017 the company purchased 400 own Debentures at ₹ 97 cum-interest in the open market. Interest on debentures is payable on 30th June and 31st December each year.

Required: Give the necessary journal entries assuming that the own Debentures purchased were retained as investments till 31.12.2017, on which date they were cancelled.

Assume that the company follows English Calendar Year. 6

(b) M/s. Ayush Ltd. began construction of a new building on 1st January, 2017. It obtained ₹ 3,00,000 lakh special loan to finance the construction of the building on 1st January, 2017 at an interest rate of 12% p.a. The company's other outstanding two

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non-specific loans were:

Amount	Rate of Interest
6,00,000	11% p.a.
11,00,000	13% p.a.

The expenditure that were made on the building project were as follows:

	Amount ()
January, 2017	3,00,000
April, 2017	3,50,000
July, 2017	5,50,000
December, 2017	1,50,000

Building was completed on 31st December, 2017. Following the principles prescribed in AS 16 on 'Borrowing Cost', calculate the amount of interest to be capitalized and pass one Journal entry for capitalizing the cost and borrowing in respect of the building.

6

Answer:

2. (a)

Journal of Jay Ltd.

Date	Particulars	L.F	Dr.()	Cr.()
May 01	Own Debentures A/c Interest on Own Debenture A/c To Bank A/c (Being the purchase of 400 debentures @ `97 cum-interest)	Dr. Dr.	37,200 1,600	38,800
June 30	Debentures Interest A/c To Interest on Own Debentures A/c To Bank A/c (Being the interest paid/credited on `2,00,000 debentures held by outsiders and by the company own debentures for 2 months)	Dr.	12,000	2,400 9,600
Dec. 31	Debentures Interest A/c To Bank A/c To Interest on Own Debentures A/c (Being the interest paid / credited on `1,60,000 debentures held by outsiders and `40,000 own debentures for six months)	Dr.	12,000	9,600 2,400
Dec. 31	Profit and Loss A/c To Debenture Interest A/c (Being the transfer of debenture interest to P&L A/c)	Dr.	24,000	24,000
Dec. 31	Interest on Own Debentures A/c To Profit & Loss A/c (Being the transfer of interest on own debentures to P&L A/c)	Dr.	3,200	3,200
Dec. 31	12% Debentures A/c To Own Debentures A/c To Capital Reserve A/c (Being the cancellation of 400 own debentures)	Dr.	40,000	37,200 2,800
Dec. 31	Profit & Loss Appropriation A/c To Debenture Redemption Reserve A/c (Being the transfer of an amount equivalent to the cash sum applied in redeeming the debentures)	Dr.	37,200	37,200

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(b) (i) Computation of average accumulated expenses:

$\text{₹}3,00,000 \times 12/12$	3,00,000
$\text{₹}3,50,000 \times 9/12$	2,62,500
$\text{₹}5,50,000 \times 6/12$	2,75,000
$\text{₹}1,50,000 \times 1/12$	12,500
$\text{₹}13,50,000$	8,50,000

(ii) Calculation of average interest rate other than for specific borrowings:

Amount of loan (₹)	Rate of interest	Amount of interest (₹)
6,00,000	11 %	= 66,000
11,00,000	13%	=1,43,000
17,00,000		2,09,000
Weighted average rate of interest	$\frac{2,09,000}{17,00,000} \times 100$	=12.29%

(iii) Interest amount to be capitalized:

Particulars	₹
Specific borrowings ($\text{₹}3,00,000 \times 12\%$)	= 36,000
Non-specific borrowings [$\text{₹}5,50,000 - (\text{₹}8,50,000 - \text{₹}3,00,000) \times 12.29\%$]	= 67,595
Amount of interest to be capitalized	= 1,03,595

(iv) Computation of actual interest costs incurred during the year —

Particulars	Amount (₹)
$\text{₹}3,00,000 \times 12\%$	36,000
$\text{₹}6,00,000 \times 11\%$	66,000
$\text{₹}11,00,000 \times 13\%$	1,43,000
	2,45,000

Amount to be capitalized is $\text{₹}13,50,000 + \text{₹}1,03,595$ i.e. $\text{₹}14,53,595$ which is not more than $\text{₹}2,45,000$.

(iv)

Journal Entry

Date	Particulars	Dr. (₹)	Cr. (₹)
31.12.2017	Building Account (13,50,000 + 1,03,595) To Bank Account (Being amount of cost of building and borrowing cost thereon capitalized)	Dr. 14,53,595	14,53,595

3. (a) The following are the summarized Balance Sheets of ABC Limited as on 31st March, 2016 and 2017:

Liabilities	31.03.16	31.03.17	Assets	31.03.16	31.03.17
Share Capital	4,60,000	4,60,000	Land & Building	3,00,000	3,00,000
Profit & Loss Balance	32,000	46,000	Machinery	1,04,000	1,40,000
Reserve	1,20,000	1,20,000	Investments	2,20,000	1,48,000
8% Debentures	1,80,000	1,40,000	Stock	1,64,000	2,12,000
Depreciation Fund	80,000	88,000	Debtors	1,34,000	86,000
Creditors	2,06,000	1,92,000	Cash	1,80,000	1,80,000
Outstanding expenses	26,000	24,000	Prepaid expenses	2,000	4,000
	11,04,000	10,70,000		11,04,000	10,70,000

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Additional Information:

- (i) 10% Dividend was paid during 2016-17.
- (ii) Old Machinery costing ₹ 24,000 (accumulated depreciation ₹ 12,000) was sold for ₹ 8,000.
- (iii) 40,000 8% Debenture were redeemed by purchase from open market at ₹ 96 for a debenture of ₹ 100 on 31.03.2017.
- (iv) Investments worth ₹ 72,000 were sold at book value.
- (v) Bad debt written off during the year ₹ 10,000.

Prepare a Statement of Cash Flow for the year ended 31.03.2017. 8

- (b) Given below are details of interest on advance of a Commercial Bank as on 31.03.2017:

Particulars	Interest Earned (₹ in Crore)	Interest Received (₹ in Crore)
Performing Assets		
Term Loan	120	80
Cash Credit and Overdraft	750	620
Bills Purchased and Discounted	150	150
Non-Performing Assets		
Term Loan	75	5
Cash Credit and Overdraft	150	12
Bills Purchased and Discounted	100	20

Find out the income to be recognized for the year ended 31st March, 2017. 4

Answer:

3. (a)

ABC Ltd.

Cash Flow Statement for the year ended 31.03.2017

Particulars			
1. Cash Flows under Operating Activities			
Operating Profit (As per adjusted P/L A/c)		96,800	
Add: Decrease in Debtors		48,000	
		1,44,800	
Less: Increase in stock	48,000		
Increase in prepaid expenses	2,000		
Decrease in creditors	14,000		
Decrease in outstanding expenses	2,000	66,000	
Net cash from Operating Activities			78,800
2. Cash Flows from Investing Activities :			
Sale of machinery		8,000	
Sale of investment		72,000	
Less: Purchase of machinery		80,000	
Net cash from Investing		60,000	20,000
3. Cash Flows from Financing Activities :			
Redemption of Debenture (96/100 × 40,000)		(38,400)	
Payment of interest		(14,400)	
Payment of dividend		(46,000)	
Net cash from Financing activities			(98,800)
Net change in cash and cash equivalent for the year			Nil
Add : Cash at the beginning of the year			1,80,000
Cash at the end of the year			1,80,000

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(1) Machinery Account

Dr.	Particulars	\`	Cr.
	To Balance b/d	1,04,000	By Bank - Sale proceeds
	" Bank - Purchase (Bat. Fig.)	60,000	" Depreciation fund
			" Adj. P/L A/c - loss on sale
			By Balance c/d
		1,64,000	1,64,000

(2) Depreciation Fund Account

Dr.	Particulars	\`	Cr.
	To Machinery A/c	12,000	By Balance b/d
	To Balance c/d	88,000	" Adj. P/L A/c— Depreciation
		1,00,000	1,00,000

(3) Investment Account

Dr.	Particulars	\`	Cr.
	To Balance b/d	2,20,000	By Bank
			By Balance c/d
		2,20,000	2,20,000

(4) Adjusted Profit & Loss Account

Dr.	Particulars	\`	Cr.
	To Machinery A/c - loss on sale	4,000	By Balance b/d
	" Depreciation Fund - Depreciation	20,000	" 8% Debenture-Profit on cancellation
	" Dividend	46,000	By Operating profit (Bal. figure)
	" Interest (1,80,000 x 8/100);	14,400	
	To Balance c/d	46,000	
		1,30,400	1,30,400

Note: There is no need to make any adjustment entry for bad debt as it has already been written off.

- (b) As per RBI Circular, Interest on non-performing assets are considered on Cash Basis whereas interest on performing assets are considered on Accrual Basis.

Statement Showing the Recognition of Income

Particulars	(` in Crore)	
	Amount (`)	Amount (`)
1. Interest on Term Loans		
(i) Performing Assets	120	
(ii) Non-performing Assets	5	
		125
2. Interest on Cash Credit and Overdraft		
(i) Performing Assets	750	
(ii) Non-performing Assets	12	
		762
3. Interest on Bills Purchased and Discounted		
(i) Performing Assets	150	
(ii) Non-performing Assets	20	
		170
Income to be recognized		1057

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4. ABC Limited has an authorized capital of ₹ 5,00,000 divided into 5000 equity shares of ₹ 100 each. On 31.03.2018, 2500 shares were fully called up. The following are the balance extracted from the ledger of the company as on 31.03.2018:

Inventory	50,000	Advertisement	3,800
Sales	4,25,000	Bonus	10,500
Purchases	3,00,000	Accounts receivable	38,700
Productive wages	70,000	Accounts payable	35,200
Discount allowed	4,200	Plant and Machinery	80,500
Discount received	3,150	Furniture	17,100
Insurance (year up to 30.06.2018)	6,720	Cash at bank	1,30,000
Salaries	18,500	Cash in hand	4,700
Rent	6,000	Reserves	25,000
General expenses	8,950	Loan from Managing Director	15,700
Profit and Loss a/c (cr.)	6,220	Bad debts	3,200
Printing and Stationary	2,400	Calls in arrears	5,000
		Share capital	2,50,000

Also the following information are given:

- Closing inventory is ₹ 91,500
- Depreciation to be charged on plant and furniture at 15% and 10% respectively
- Outstanding liabilities—wages at ₹ 5,200, salaries at ₹ 1,200 and rent at ₹ 600
- Salesman are entitled to a commission of 1% on sales
- ₹ 4,000 are to be transferred to General reserves
- Dividend on paid up share capital is to be provided @ 5%

You are required to prepare Profit and Loss Statement for the year ended 31.03.2018 and the Balance Sheet as on that date in accordance with the Companies Act, 2013 in the Vertical Form along with the Notes on Accounts. 12

Answer:

4.

Balance Sheet of ABC Limited as on 31st March, 2018

Particulars	Note No.	Amount (₹)
I. Equity & Liabilities		
(1) Shareholders' Funds:		
(a) Share Capital	1	2,45,000
(b) Reserves & Surplus	2	30,995
(2) Non-Current Liabilities		
(a) Long Term Borrowing	3	15,700
(3) Current Liabilities:		
(a) Trade Payable		35,200
(b) Other Current Liabilities	4	11,250
(c) Short Term Provision	5	12,250
		3,50,395
II. Assets		
(1) Non-Current Assets		
Fixed Assets		
Tangible Assets	6	83,815
(2) Current Assets:		
(a) Inventories		91,500
(b) Trade Receivables		38,700
(c) Cash & Cash Equivalents		1,34,700
(d) Short Term Loans & Advances (Prepaid Insurance)		1,680
		3,50,395

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Profit and Loss Statement for the year ended 31st March, 2018

Particulars	Note No.	Amount (₹)	Amount (₹)
I. Revenue From Operation			4,25,000
II. Other Income			3,150
III. Total Revenue (I+II)			4,28,150
IV. Expenses:			
(a) Cost of material consumed	7	3,33,700	
(b) Employees cost/ benefits expenses	8	30,200	
(c) Depreciation & amortization expenses		13,785	
(d) Other expenses	9	38,440	
Total Expenses			4,16,125
V. Profit for the year (III-IV)			12,025
Balance brought forward from previous year			6,220
Profit available for appropriation			18,245
Appropriation:			
Proposed dividend		12,250	
Transfer to General Reserve		4,000	
			16,250
Balance carried forward			1,995

Notes:

1. Share Capital:	
Issued, Subscribed & Paid up	2,50,000
Less: Calls in arrears	5,000
	2,45,000
2. Reserves & Surplus:	
General Reserve	29,000
Surplus (P & L A/c)	1,995
	30,995
3. Long Term Borrowings:	
Unsecured:	
Loan from Managing Director	15,700
	15,700
4. Other Current Liabilities:	
Outstanding Expenses	7,000
Salesmen Commission	4,250
	11,250
5. Short Term Provisions:	
Proposed Dividend	12,250
	12,250

6. Tangible Fixed Assets:

Item	Closing Balance (₹)	Depreciation (₹)	Net (₹)
Plant & Machinery	80,500	12,075	68,425
Furniture	17,100	1,710	15,390
Total	97,600	13,785	83,815

7. Cost of materials consumed:	
Opening stock	50,000
Purchases	3,00,000
Less: Closing Stock	(91,500)
Wages	75,200
	3,33,700
8. Employees Benefit Expenses:	
Salary	19,700
Bonus	10,500

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	30,200
9. Other Expenses:	
Administrative Expenses (5,040+6,600+8,950+2,400)	22,990
Provision for bad debts	3,200
Marketing Expenses (4,200+3,800+4,250)	12,250
	38,440

5. Write short note on (any three):

4×3=12

- (a) Geographical Segment as per AS-17**
- (b) Advantages of buy-back of shares**
- (c) Distinguish between Life and Non-Life Insurance**
- (d) Share Application money pending allotment**

Answer:

- 5. (a)** A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risk and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:
- (i) Similarity of economic and political conditions;
 - (ii) Relationships between operations in different geographical areas;
 - (iii) Proximity of operations;
 - (iv) Special risks associated with operations in a particular area;
 - (v) Exchange control regulations; and
 - (vi) The underlying currency risks.
- (b)** Buy-back of shares have the following advantages:
- (i) A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital.
 - (ii) Free reserves which are utilized for buy-back instead of dividend enhance the value of the company's shares and improve earnings per share.
 - (iii) Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax.
 - (iv) Buy-back may be used as a weapon to frustrate any hostile take-over of the company by undesirable persons.
- (c)** There are certain basic differences between life policies and other types of policies. These are listed below:
- (i) Human life cannot be valued exactly. Therefore each insured is permitted to insure his life for a specified sum, depending on his capacity to pay premiums. This is also one form of investment and the policy amount depends on his investment decision. In the event of the policy maturing, the insurer must pay the policy amount, as actual loss cannot be determined. This is not the case with other policies. Other policies are contracts of indemnity. Therefore, notwithstanding the amount for which the policy is taken, the insurer would pay (reimburse) only the actual loss suffered or the liability incurred.
 - (ii) Life insurance contracts are long-term contracts. Once a policy is taken, premiums have to be paid for number of years till maturity and the policy amount is paid on maturity. Of course, a life policy can be surrendered after certain number of years and the insured is paid a proportion of the premiums paid known as surrender value. In the case of other policies, they are for a short period of one year although the policy can be renewed year after year.
 - (iii) Life insurance is known also by another term 'assurance' since the insured gets an assured sum. Other policies are known as insurance.
 - (iv) The determination of profit is by different methods for life and general insurance business. In the case of life business, periodically actuaries estimate the liability

under existing policies. On that basis, a valuation Balance Sheet is prepared to determine the profit. In the case of general insurance business, a portion of the premium is carried forward as a provision for unexpired liability and the balance net of claims and expenses is taken as profit (or loss).

(d) Share application money pending allotment

As per Schedule III it is to be shown as a separate line item on the face of Balance Sheet. Other provisions in this respect are as follows:

- (i) Share Application Money not exceeding the Issued Capital and to the extent not refundable, is to be disclosed as a separate line item after - Share Holders Funds and before - Non-Current Liabilities.
- (ii) If the Company's Issued Capital is more than the Authorized Capital, and approval of increase in Authorized Capital is pending, the amount of Share Application Money received over and above the Authorized Capital should be shown under the head - Other Current Liabilities.
- (iii) The amount shown as Share Application Money Pending Allotment will not include Share Application Money to the extent refundable. For example, the amount, in excess of Issued Capital, or where Minimum Subscription requirement is not met. Such amount will have to be shown separately under 'Other Current Liabilities'.
- (iv) Calls Paid in Advance are to be shown under - Other Current Liabilities. The amount of interest which may accrue on such advance should also be reflected as a Liability.

**Section - B
(Audit)**

Answer Question No. 6 and any three from Question No. 7, 8, 9 and 10.

6. (a) Identify the correct alternative in each of the following cases: 1×6=6

- (i) **If the Debentures are issued as collateral security either to Banks or Creditors the Auditor needs to ensure that such issue is approved by**
 - (A) Shareholders
 - (B) Board of Directors
 - (C) Debenture Trustee
 - (D) Audit Committee
- (ii) **As per SQC 1, Audit working papers should be retained for a period of**
 - (A) 2 years
 - (B) 5 years
 - (C) 7 years
 - (D) 10 years
- (iii) **Current Audit files contains**
 - (A) Articles of Association and Memorandum of Association
 - (B) Analysis of significant ratios and trends
 - (C) Notes regarding significant Accounting policies
 - (D) Audit Programme
- (iv) **Form for maintenance of Cost Records of a Company is**
 - (A) CRA-1
 - (B) CRA-2
 - (C) CRA-3
 - (D) CRA-4
- (v) **Secretarial Audit is applicable to every Public Company having a turnover of**
 - (A) ` 100 crores

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- (B) ` 150 crores
- (C) ` 250 crores
- (D) ` 200 crores

- (vi) Statutory Auditor is appointed by the Shareholders in the
- (A) General Meeting
 - (B) Statutory Meeting
 - (C) EGM
 - (D) Board Meeting

- (b) Match the following items in Column 'A' with items shown in Column 'B': 1x4=4

	Column 'A'		Column 'B'
1.	Independent appraisal activity	A	Secretarial Audit Report
2.	SA700	B	Section 123
3.	Form MR3	C	Internal Audit
4.	Declaration of dividend	D	Forming an opinion and reporting on financial statements

- (c) State whether the following statements are True or False: 1x4=4
- (i) Section 70 deals with the Audit of Debenture.
 - (ii) An Audit Committee should have 4 directors.
 - (iii) CARO-Companies (Auditor's Report) order, 2016 is applicable to Banking Companies.
 - (iv) Internal Check is part of Accounting Control.

Answer:

6. (a) (i) B
(ii) C
(iii) D
(iv) A
(v) C
(vi) A
- (b) (1) C
(2) D
(3) A
(4) B
- (c) (i) False
(ii) False
(iii) False
(iv) True

7. (a) Distinguish between Permanent and Current Audit File. 6
- (b) "Internal Audit is an important tool for the management."—Discuss. 6

Answer:

7. (a) Permanent and Current Audit File: In case of recurring audits, some working papers files may be classified into permanent audit files and current audit files: while the former is updated with the information of continuing importance, the latter contains information relating to audit of a single period. The contents of these files are given below:

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Sr. No.	Permanent Audit File	Current Audit File
1	Legal and organizational structure of the entity, e.g. Memorandum of Association and Article of Association in case of a company	Correspondence relating to acceptance of annual re- appointment
2	Extracts or copies of legal documents, agreements and minutes relevant to the audit.	Extracts of important matters in the minutes of Board Meetings and General Meetings relevant to the audit
3	A record of study and evaluation of internal controls	Copies of management letters
4	Analysis of significant ratios and trends.	Analysis of transactions and balances
5	Copies of the audited financial statements of previous year(s)	Copies of communication with other auditors, experts and third parties
6	Notes regarding significant accounting policies	Audit programme
7	Significant audit observations of the earlier years	Conclusions reached on significant aspects of audit

- (b) Internal audit is an important management tool for the following reasons:
- a. Internal audit ensures compliance of Companies (Auditors Report) Order, 2016.
 - b. It ensures compliance of accounting standards and policies.
 - c. It ensures reliability of MIS through internal audit's independent appraisal and review.
 - d. It looks into the standard of efficiency of business operation.
 - e. It can evaluate various problems independently and suggest improvement.
 - f. This system makes the internal control system effective.
 - g. It ensures the adequacy, reliability, accuracy and understandability of financial and operational data.
 - h. It performs as an integral part of 'Management by system'.
 - i. It can add valuable assistance to management in acquiring new business, promoting new products and expansion or diversification of business etc.

8. (a) Discuss the provisions of Companies Act, 2013 as regards reporting of frauds by Company Auditor. 6

(b) Discuss about the manner in which rotation of Auditors may be done by the company on expiry of their term. 6

Answer:

8. (a) The provisions of Companies Act 2013 regarding reporting of frauds by a company auditor are as follows:
- (1) For the purpose of sub-section (12) of section 143, in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below.
 - (i) auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;
 - (ii) on receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;

- (iii) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.
- (2) The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an e-mail in confirmation of the same.
- (3) The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number.
- (4) The report shall be in the form of a statement as specified in Form ADT-4.
- (5) The provision of this rule shall also, mutatis mutandis, to a cost auditor and a secretarial auditor during the performance of his duties under section 148 and section 20,4 respectively.
- (b)** The Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm who may replace the incumbent auditor on expiry of the term of such incumbent.
- (1) Where a company is required to constitute an Audit Committee, the Board shall consider the recommendation of such committee, and in other cases, the Board shall itself consider the matter of rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.
- (2) For the purpose of the rotation of the auditors-
- (i) In case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of five consecutive years or ten consecutive years, as the case may be;
- (ii) The incoming auditor or audit firm shall not be eligible, if such auditor or audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

Explanation I: For the purposes of these rules, the term "same network" includes the firms operating or functioning, hitherto or in future under the same brand name, trade name or common control.

Explanation II: For the purpose of rotation of auditors,-

- (a) A break in the term for a continuous period of five years shall be considered as fulfilling the requirement of rotation;
- (b) If a partner who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.

(9) (a) What is the procedure to be followed for fixing the remuneration of a Cost Auditor? 5

(b) Distinguish between 'Audit Report' and 'Audit Certificate'.

7

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Answer:

(9) (a) Authority for fixing the Remuneration of a Cost Auditor:

Rule 14 of the Companies [Audit and Auditors] Rules 2014 has laid down the procedure of appointment and fixing the remuneration of a cost auditor. It states as follows:

Remuneration of the Cost Auditor: For the purpose of sub-section (3) of section 148 –

- (a) In the case of companies which are required to constitute an audit committee -
- (i) The Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;
 - (ii) The remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;
- (b) In the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

(b)

	Basis	Audit Report	Audit Certificate
1	Meaning	Audit Report is a statement of collected and considered information so as to give a clear picture of the state of affairs of the business to the persons who are not in possession of the full facts.	While Audit Certificate is a written confirmation of the accuracy of the information stated there in.
2	Opinion	Audit Report contains the opinion of the auditor on the accounts.	While Audit Certificate does not contain any opinion, but only confirms the accuracy of the figures with the books of accounts.
3	Basis	Audit Report is made out on the basis of information obtained and books of account verified by the auditor.	While Audit Certificate is made out on the basis of the particular data capable of verification as regards accuracy.
4	Guarantee	Audit Report may not guarantee correctness of financial statement in absolute terms.	While Audit Certificate guarantees absolute correctness of the figures and information mentioned in the Certificate.
5	Coverage	Audit Report always covers entire accounts of the concern.	While Audit Certificate covers only, certain part of the accounts of the concern.
6	Responsibility	Audit Report does not hold auditor responsible for anything wrong in the accounts.	While Audit Certificate makes an auditor responsible, if anything mentioned in the certificate found as wrong, later on.
7	Suggestion	Audit Report may provide certain suggestions for improvement.	While Audit Certificate does not provide any such suggestion.
8	Nature	Audit Report is based on the vouching and verification of books of accounts, voucher,	While Audit Certificate is based on checking arithmetical accuracy of the facts.

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		assets and liabilities.	
9	Scope	Audit Report covers all transactions done during the year.	While the Audit Certificate is very specific.
10	Characteristics	Audit Report is subjective, as it is opinion oriented.	While Audit Certificate is objective, as it is fact oriented
11	Form	Audit Report is required to be presented in the prescribed format.	While Audit Certificate, except in few cases, is not required to be presented in any standard format.
12	Address	Audit report is addressed to the members of the company at large or appointing authority.	While Audit certificate is addressed to particular person or sometimes may include the words like "To whomsoever it may concern."

10. Write short notes (any three):

4×3=12

- (a) Responsibility of a Joint Auditor
- (b) Elements of 'cost of inventory' as per AS 2
- (c) Audit of Education Institutions
- (d) Auditor's duty regarding Issue of Debentures

Answer:

10. (a) Responsibility of a Joint Auditor:

1. For the audit work divided among themselves, each joint auditor is responsible only for the work allocated to him. Accordingly, among other duties,
 - (i) Each joint auditor is required to scrutinize the audit report of the branch/ divisions specifically allocated to him.
 - (ii) Each joint auditor is required to obtain and evaluate information and explanations from the management of the divisions, zones or units specifically allocated to him.
2. In respect of undivided work.
 - (i) In respect of decision taken jointly regarding the nature, timing or extent of audit procedures to be performed by any of the joint auditor. (However, they will be responsible only with respect to the appropriateness of the decision, proper execution of the audit procedures is the separate and specific responsibility of the joint auditor concerned.)
 - (ii) In respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among them.
 - (iii) In respect of compliance with disclosure requirement (i.e. Notes on accounts) of the relevant statute while examining the financial statements.
 - (iv) For ensuring that the audit report complies with the requirements of the relevant statute.

(b) Elements of 'cost of inventory' as per AS 2

Cost of inventory includes the following

1. Cost of purchase
 2. Cost of conversion
 3. Other costs incurred in bringing the inventories to their present location and condition.
1. Cost of purchase includes—
Purchase price, Duties and Taxes, Freight inward, other expenditures directly attributable to the acquisition less duties and taxes recoverable by enterprises

- from taxing authorities. Trade discount, Rebate, Duty drawback, Other similar items.
2. Cos of conversion —
It consists of the cost directly related to the units + Systematic Allocation of fixed and variable production overheads that are incurred in converting material into finished goods. Fixed Production overhead means Indirect cost of production that remains relatively constant regardless of volume of production. Allocation of fixed production overhead is done on normal capacity.
Variable Production overhead means indirect cost of production that varies directly or nearly directly with the volume of production. Allocation of variable production overhead is done on actual production.
In case of Joint-products, when the cost of conversion of each product is not identifiable separately, total cost of conversion is allocated between the products on the rational and consistent basis, if by-products, scrap or waste materials are not of material value, they are measured at net realisable value, then the net realisable value is deducted from cost of conversion. Net cost of conversion is distributed among the main products.
3. Other costs: Cost incurred in bringing the inventories to their present location and condition.

(c) Audit of Education Institutions

The special steps involved in the audit of an educational institution are the following:

- (i) Examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed there under.
- (ii) Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, specially the decisions as regards the operation of bank accounts and sanctioning of expenditure.
- (iii) Check names entered in the Students' Fee Register for each month or term, with the respective class registers, showing names of students on rolls and test amount of fees charged; and verify that there operates a system of internal check which ensures that demands against the students are properly raised.
- (iv) Check fees received by comparing counterfoils of receipts granted with entries in the cash book and tracing the collections in the Fee Register to confirm that the revenue from this source has been duly accounted for.
- (v) Total up the various columns of the Fees Register for each month preterm to ascertain that fees paid in advance have been carried forward and the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
- (vi) 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.
- (vii) See that free studentship and concessions have been granted by a person authorised to do so, having regard to the prescribed Rules.
- (viii) Confirm that fines for late payment or absence, etc., have either been collected or remitted under proper authority.
- (ix) Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
- (x) Verify rental income from landed property with the rent rolls, etc.
- (xi) 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.
- (xii) Confirm that the refund of taxes deducted from the income from investment

(interest on securities, etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income-tax.

- (xiii) Verify the annual statements of accounts and while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of Staff, etc.

(d) Auditor's duty regarding Issue of Debentures:

- (i) The auditor should verify that the prospectus had been duly filed with the registrar before the date of allotment of debentures.
- (ii) He should check the amount collected in the cash book with the counterfoils of receipts issued to the applicants and also cross check the amount into the application and allotment book.
- (iii) He should examine the debenture trust deed and note the conditions contained therein as to issue and repayment.
- (iv) If the debentures are covered by a mortgage or a charge, it should be verified that the charge has been correctly recorded in the register of mortgage and charges" and it has also been registered with the registrar of the companies.
- (v) Compliance with SEBI guidelines should also be ensured.
- (vi) Where debentures have been issued as fully paid up to vendors as a part of the purchase consideration, the contract in this regard should be checked.

INTERMEDIATE EXAMINATION

GROUP II

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2018

Paper- 12: COMPANY ACCOUNTS AND AUDIT

Time Allowed : 3 Hours

Full Marks : 100

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

Where considered necessary, suitable assumptions should be made and clearly indicated in the answer.

The Question paper has two sections. A and B. Both sections are to be answered as per instructions given against each.

Section-A

(Company Accounts)

Answer Question No. 1 and three from Question Nos. 2, 3, 4, and 5

1. Choose the correct alternative:

1×6=6

- (i) Which of the following reserves cannot be used for the purpose of issuing bonus shares?
- (A) Revaluation Reserve
 - (B) Dividend Equalization Reserve
 - (C) Capital Redemption Reserve
 - (D) General Reserve
- (ii) In Case of Life Insurance Business, Bonus may be of
- (A) One type
 - (B) Two types
 - (C) Three types
 - (D) None of the above
- (iii) Installment of principal amount of long-term loan payable within next 12 months is shown under Balance Sheet of a company under the heading
- (A) Non-current Assets
 - (B) Non-current Liabilities

Suggested Answer Syl16 Dec2018 Paper 12

- (C) Current Assets
(D) Current Liabilities
- (iv) Which of the following is not a condition of buy-back of securities?
(A) Both fully and partly paid-up securities can be bought back
(B) Buy-back must be authorized by the Articles of Association
(C) Buy-back must be authorized by passing a special resolution in general meeting
(D) Buy-back should be completed within 1 year from the date of passing of special resolution
- (v) A banking company is required to maintain----- provision on unsecured portion of doubtful advances
(A) 25%
(B) 40%
(C) 50%
(D) 100%
- (vi) Which of the following is correct?
(A) Debenture carries a fixed rate of dividend
(B) A company limited by shares may issue irredeemable preference shares
(C) Unmarked applications are those applications that bear the stamp of the underwriter
(D) Except as provided in Section 54, a company shall not issue shares at a discount

(b) Match the following items in Column 'A' with items shown in Column 'B': 1×4=4

Column A		Column B	
(i)	Functional Currency	(a)	Electricity Company
(ii)	Surrender Value	(b)	AS19
(iii)	Service Line Development Charges	(c)	As 11
(iv)	Contingent Rent	(d)	Insurance Company
		(e)	No match found

- (c) State whether the following statements are *True* or *False*: 1×4= 4
- (i) The profit on forfeiture and re-issue of equity shares are credited to Capital Redemption Reserve.
(ii) As per Companies Act 2013, companies are not permitted to buy back their own shares out of securities premium.
(iii) Bonus is the share of profit which is payable by the insurance company to the policyholders.
(iv) Interest on loan is included in 'other operating expenses' under the Statement of Profit and Loss.

Suggested Answer Syl16 Dec2018 Paper 12

Answer: 1(a)

- (i) (A)
- (ii) (C)
- (iii) (D)
- (iv) (A)
- (v) (D)
- (vi) (D)

Answer: 1(b)

Column A		Column B	
(i)	Functional Currency	(c)	As 11
(ii)	Surrender Value	(d)	Insurance Company
(iii)	Service Line Development Charges	(a)	Electricity Company
(iv)	Contingent Rent	(b)	AS19

Answer: 1(c)

- (i) False
- (ii) False
- (iii) True
- (iv) False

2. (a) Following is the extract of the Balance Sheet of Xeta Ltd. As at 31st March, 2017:

Authorized Capital:		
50,000 12% Preference shares of Rs.10 each		5,00,000
4,00,000 Equity shares of Rs.10 each		<u>40,00,000</u>
		<u>45,00,000</u>
Issued and Subscribed Capital:		
24,000 12% Preference shares of Rs.10 each fully paid		2,40,000
2,70,000 Equity shares of Rs.10 each, Rs.8 paid up		21,60,000
Reserves and Surplus:		
General Reserve		3,60,000
Securities Premium		1,00,000
Profit and Loss Account		6,00,000

On 1st April, 2017, the Company has made final call@2 each on 2,70,000 Equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet as on 30th April, 2017 after bonus issue. 7

Suggested Answer Syl16 Dec2018 Paper 12

- (b) An enterprise operates through six segments, namely, A, B, C, D, E and F. The relevant information about these segments are given in the following table

(amounts in Rs.'000):

	A	B	C	D	E	F	Total (segment)
1. Segment Revenue							
(a) External Sales	--	550	250	150	50	50	1050
(b) Inter Segment Sales	100	100	50	200	--	50	500
2. Segment Results-Profit/(Loss)	(90)	25	(5)	(15)	5	10	--
3. Segment Assets	30	50	10	20	10	5	

Identify the reportable segments under (i) segment revenue criterion, (ii) segment result criterion and (iii) segment asset criterion as per AS17.5

Answer: 2(a)

Journal Entries in the books of Xeta Ltd.

		Dr.	Rs.		Rs.
1-04-17	Equity share final call A/c	Dr.	5,40,000		
	To Equity share capital A/c			5,40,000	
	(For final calls of Rs.2per share on 2,70,000 equity shares due as per Board's Resolution dated...)				
20-04-17	Bank A/c	Dr.	5,40,000		
	To Equity share final call A/c			5,40,000	
	(For final call money on 2,70,000 equity shares received)				
	Securities Premium A/c	Dr.	1,00,000		
	General Reserve A/c	Dr.	3,60,000		
	Profit and Loss A/c	Dr.	2,15,000		
	To Bonus to shareholders A/c			6,75,000	
	(For making provision for bonus issue of one share for every four shares held)				
	Bonus to shareholders A/c	Dr.	6,75,000		
	To Equity share capital A/c			6,75,000	
	(For issue of bonus shares)				

Extract of Balance Sheet as at 30th April, 2017(after bonus issue)

	Rs.
Authorised Capital	
50,000 12% Preference shares of Rs.10 each	5,00,000
4,00,000 Equity shares of Rs.10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of Rs.10 each, fully paid	2,40,000
3,37,500 Equity shares of Rs.10 each, fully paid	33,75,000
(Out of above, 67,500 equity shares @Rs.10each were issued by way of bonus)	
Reserves and surplus	

Suggested Answer Syl16 Dec2018 Paper 12

Profit and Loss Account

3,85,000

Answer: 2(b)

Calculation of reportable segments

(Rs.000)

	A	B	C	D	E	F	Total (segment)
1. Segment Revenue							
(a) External Sales --	--	550	250	150	50	50	1050
(b) Inter Segment Sales	100	100	50	200	--	50	500
Total	100	650	300	350	50	100	1550
2. Segment Results Profit/(Loss)	(90)	25	(5)	(15)	5	10	(110)/40
3. Segment Assets	30	50	10	20	10	5	125

10% of total revenue of all segments=155

Reportable segments under revenue criterion=B, C and D

10% of segment result (higher of total profit or loss in absolute figure)=11 Reportable segments under result criterion = A, B, and D

10% of total segment assets = 12.5

Reportable segments under asset criterion = A, B and D

3. (a) Following are the summarized Balance Sheets of Beta Ltd

Liabilities	31.03.17 Rs.	31.03.18 Rs.	Assets	31.03.17 Rs.	31.03.18 Rs.
Equity Share Capital (Rs.10)	4,00,000	5,00,000	Land & Building	4,00,000	3,80,000
General Reserve	1,00,000	1,20,000	Plant & Machinery	3,00,000	3,38,000
Profit & Loss (Cr.)	61,000	61,200	Inventory	2,00,000	1,48,000
Bank Loan	1,40,000	--	Trade Receivable	1,60,000	1,28,400
Trade Payable	3,00,000	2,70,400	Cash in hand	1,000	1,200
Provision for Taxation	60,000	70,000	Cash at Bank	--	16,000
			Goodwill	--	10,000
	10,61,000	10,21,600		10,61,000	10,21,600

Additional Information:

(i) Dividend paid during the year **Rs.46,000**

(ii) Net profit for the year **Rs.1,32,200**

(iii) Depreciation written-off on building **Rs.20,000** and on machinery **Rs.28,000**

(iv) Income tax paid during the year **Rs.56,000**

(v) The following assets of another company were purchased for a consideration of **Rs.1,00,000** and paid in shares

Assets were: Inventory **Rs.40,000** and Machinery **Rs.50,000**

(vi) Further machinery was purchased for **Rs.50,000** during the year. There was a sale of

Suggested Answer Syl16 Dec2018 Paper 12

Machinery

Your are required to prepare a Cash Flow Statement as per AS 3

9

- (b) From the following information calculate return on equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulation 2004:

3

- (i) Date of commercial operation of COD=01.04.2014
 (ii) Approved opening capital cost as on 01.04.2014=Rs.30,00,000
 (iii) Details of allowed additional capital expenditure:

Year	1	2	3	4
Additional Capital Expenditure (Rs.)	2,00,000	60,000	40,000	20,000

Answer: 3(a)

Cash Flow Statement For year ended 31.03.2018

Particulars	Rs.	Rs.	Rs.
1. Cash flow from operating activities			
Net profit		132200	
Add: Adjustment for non-cash expenses			
Depreciation on land and buildings	20000		
Depreciation on plant and machinery	28000	48000	
Operating profit before adjustment for w.c changes		180200	
Add: Decrease in inventory [200000-(148000-40000)]	92000		
Decrease in trade receivable (160000-128400)	31600	123600	
		303800	
Less: Decrease in trade payable (300000-270400)tax paid		29600	
		274200	
Less: tax paid		56000	
Net cash from operating activities			218200
2. Cash flow from investing activities			
Sale of machinery		34000	
Less: purchase of machinery		50000	
			(16000)
3. Cash flow from financing activities			
Repayment of bank loan		(140000)	
Payment of dividend		(46000)	(186000)
	1+2+3		16200
Add: Opening cash and cash equivalent			1000
Closing cash and cash equivalent			17200

Workings:

Plant and Machinery A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	300000	By Depreciation	28000

Suggested Answer Syl16 Dec2018 Paper 12

To vendor A/c	50000	By bank-sale	34000
To Bank A/c	50000	By balance c/d	338000
	400000		400000

Land and Building A/c

Particulars	Rs.	Particulars	Rs.
To balance b/d	400000	By Depreciation	20000
		By balance c/d	380000
	400000		400000

Answer: 3(b)

Calculation of Return on Equity

Particulars	Year 1	Year 2	Year 3	Year 4
A. Opening Equity (30% of Opening Capital Cost)	900000 (3000000*30%)	960000	978000	990000
B. Additional Equity (30% of Additional Expenditure)	60000	18000	12000	6000
C. Closing Equity (A+B)	960000	978000	990000	996000
D. Average Equity [(A+C)/2]	930000	969000	984000	993000
E. Return of Equity (14% of Average Equity)	130200	135660	137760	139020

4. The following is the Trial Balance of Omega Limited as on 31.03.2018:

(Figures in Rs.. '000)

	Debit		Credit
Land at cost	220	Equity Capital (Shares of Rs.10each)	300
Plant and Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.03.2018)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1,670		1,670

Additional Information:

- (i) The Authorized Share Capital of the Company is 40,000 shares of Rs.10 each
- (ii) The Company on the advice of independent valuer wish to revalue the land Rs.3,60,000
- (iii) Declared final dividend @10% (over Interim Dividend of Rs.18,000)

Suggested Answer Syl16 Dec2018 Paper 12

(iv) Suspense account of Rs.4,000 represents cash received for the sale of some of the machinery on 01.04.2017. The cost of the machinery was Rs.10,000 and the accumulated depreciation thereon being Rs.8,000

(v) Depreciation is to be provided on plant and machinery at 10% on cost

You are required to prepare Omega Limited's Profit and Loss Statement for the year ended 31.03.2018 and the Balance Sheet as on that date in accordance with the Companies Act, 2013 in the Vertical Form along with the Notes on Accounts. Ignore previous years' figures and taxation.

12

Answer: 4

Balance sheet Omega Limited as on 31st March, 2018

Particulars	Note No.	Amount (Rs.000)
I. Equity & Liabilities		
(1) Shareholders' Funds:		
(a) Share Capital	1	300
(b) Reserves & Surplus	2	500
(2) Non-Current Liabilities		
(a) Long Term Borrowing	3	200
(3) Current Liabilities		
(a) Trade Payable		52
(b) Other Current Liabilities	4	30
Total		1,082
II. Assets		
(1) Non-Current Assets		
Fixed Assets		
Tangible Assets	5	880
(2) Current Assets:		
(a) Inventories		86
(b) Trade Receivables		96
(c) Cash & bank balances		20
Total		1,082

Profit and Loss Statement for the year ended 31st March, 2018

Particulars	Note No.	Amount (Rs. 000)
I. Revenue from Operation		700
II. Other Income	6	2
III. Total Revenue (I+II)		702
IV. Expenses:		
(a) Purchases		320
(b) Finance Costs	7	20
(c) Depreciation (10% of 760*)		76
(d) Other expenses (60+30+88)	8	120
Total Expenses		536
V. Profit for the year (III-IV)		166

*770 (Plant and machinery at cost)- 10 (Cost of plant and machinery sold) Notes to

accounts:

1. Share Capital		(Rs. In 000)
Equity share capital		

Suggested Answer Syl16 Dec2018 Paper 12

Authorised			
40,000 shares of Rs.10 each			400
Issued, Subscribed & called up			
30,000 shares of Rs.10 each			300
Total			300
2. Reserves & Surplus			
Securities Premium Account			40
Revaluation Reserve (360-220)			140
General Reserve			130
Profit & Loss balance			
Opening balance	72		
Profit for the period	166	238	
Less: Appropriations			
Interim Dividend		(18)	
Final Dividend (300 × 10%)		(30)	190
			500
3. Long Term Borrowings:			
10% debentures			200
4. Other Current Liability:			
Dividend			30
5. Tangible assets:			
Land			
Opening balance		220	
Add: Revaluation adjustment		140	
Closing balance			360
Plant and machinery			
Opening balance		770	
Less: Disposed off		(10)	
		760	
Less: Depreciation (172-8+76)		(240)	
Closing balance			520
Total			880
6. Other Income:			
Profit on sale of machinery:			
Sale Value of machinery		4	
Less: Book value of machinery (10-8)		(2)	2
7. Finance costs:			
Debenture interest			20
8. Other expenses:			
Factory expenses	60		
Selling expenses	30		
Administrative expenses	30		120

5. Write short notes on (any three):

4 × 3 = 12

(a) Related Party as per AS 18

(b) Re-insurance

(c) Forfeiture of Shares vis-à-vis reissue of Forfeited Shares

(d) Schedule III disclosure requirement in respect of cash and cash equivalents

Suggested Answer_Syl16_Dec2018_Paper_12

Answer: 5(a)

A related party is essentially any party that controls or can significantly influence the management or operating policies of the company during the reporting period.

AS-18, deals only with the following relationships:

Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the reporting enterprise;

Associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting enterprise is an associate or a joint venture;

Individuals owing, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise and relatives of any such individual. Here "relative" means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by that individual in his/her dealings with the reporting enterprise.

Key management personnel and relatives of such personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the reporting enterprise; and enterprise over which individual or key management personnel described as above is able to exercise significant influence.

Answer: 5(b)

Sometimes the insurer considers a particular risk too much for his capacity and may re-insure a part of the risk with some other insurer. Such an arrangement between two insurers is referred to as reinsurance. In such a case, the first insurer cannot retain all the premium on the policy for himself. Depending on the share of risk undertaken by the second insurer, proportionate premium must be ceded by the first insurer. Likewise if such a policy matures, the claim will have to be shared by both the insurers in the agreed ratio. These adjustments will have to be shown in the accounts of both the insurers. In the accounts of the first insurer, amount of claim recovered from the second insurer has to be deducted from the total claim payable by him. Similarly, the premium ceded to the second insurer has to be deducted from the total premium received. In the accounts of the second insurer, claims paid include claims paid on account of Re-insurance and premiums received include premium received on re-insurance business.

Answer: 5(c)

When a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares. If a shareholder has not paid any call on the day fixed for payment thereof and fails to pay it even after his attention is drawn to it by the secretary by registered notice, the Board of Directors pass a resolution to the effect that such shares be forfeited. Shares once forfeited become the property of the company and may be sold on such terms as directors think fit. Upon forfeiture, the original shareholder ceases to be a member and his name must be removed from the register of members.

Forfeited shares may be reissued by the company directors for any amount but if such shares are issued at a discount then the amount of discount should not exceed the actual amount received on forfeited shares. The purchaser of forfeited reissued shares is liable for payment of all future calls duly made by the Company.

Suggested Answer_Syl16_Dec2018_Paper_12

Answer: 5(d)

As per Schedule III of Companies Act 2013, Cash and Cash Equivalents shall be reported under the heading Current Assets. For the purpose of reporting Cash and Cash Equivalents shall be further classified as-

- (a) Balances with Banks,
- (b) Cheques, Drafts on Hand,
- (c) Cash on Hand,
- (d) Other (Specify nature).

Notes:

- Earmarked Balances with Banks (e.g. for Unpaid Dividend) shall be separately stated.
- Balances with Banks to the extent held as margin Money or Security against the Borrowings, Guarantees, and Other Commitments shall be disclosed separately.
- Repatriation restrictions, if any, in respect of Cash and Bank Balances shall be separately stated.
- Bank Deposits with more than 12 months Maturity shall be disclosed separately.

Section-B (Auditing)

Answer Question No. 6 and any three from Question Nos. 7, 8, 9 and 10.

6. (a) Identify the correct alternative in each of the following cases:

1'6=6

(i) Internal Auditor is appointed by

- (A) Audit Committee
- (B) Shareholders in General Meeting
- (C) Extraordinary General Meeting
- (D) Board of Directors

(ii) Cost Audit Report is submitted to Board of Directors in Form No.

- (A) CRA-1
- (B) CRA-2
- (C) CRA-3
- (D) CRA-4

(iii) Check list contains the instruction to be followed by the

- (A) Internal Auditor
- (B) External Auditor
- (C) Audit Assistants
- (D) Employee of the organization

(iv) Form for Secretarial Audit Report is

- (A) MR-2

Suggested Answer Syl16 Dec2018 Paper 12

(B) MR-3

(C) MR-4

(D) MR-5

(v) Permanent Audit file contains

(A) copies of management letters

(B) audit programme

(C) analysis of transaction and balances

(D) analysis of significant ratios and trends

(vi) Audit of debenture is covered under section

(A) 70

(B) 71

(C) 72

(D) 73

(b) Match the following items in Column 'A' with items shown in Column 'B' 1'4=4

	Column 'A'		Column 'B'
(i)	The authority for Government Audit	(a)	Audit programme
(ii)	Details of Audit work to be performed	(b)	Comptroller an Auditor General
(iii)	Removal of Statutory Company Auditor	(c)	Audit Note Book
(iv)	Details about Name and Organization Structure	(d)	Section 140
		(e)	No match found

(c) State whether the following statements are *True* or *False*: 1'4=4

(i) The Branch Auditor shall prepare report on the Accounts of the Branch examined by him and send it to Audit Committee

(ii) Maintenance of Cost Accounting Standards is mandatory as per Section 143 of Companies Act

(iii) Routine checking is a substitute of vouching

(iv) Casual vacancy in the office of Cost Auditor is filled by Board of Directors

Answer: 6(a)

(i) (D) . Board of Directors

(ii) (C). CRA 3

(iii) (C). Audit Assistants

(iv) (B). MR-3

(v) (D) . Analysis of significant ratios and trends

(vi) (B). Section 71

Answer: 6(b)

Suggested Answer Syl16 Dec2018 Paper 12

	Column „A“		Column „B“
(i)	The authority for Government Audit	(b)	Comptroller an Auditor General
(ii)	Details of Audit work to be performed	(a)	Audit programme
(iii)	Removal of Statutory Company Auditor	(d)	Section 140
(iv)	Details about Name and Organization Structure	(c)	Audit Note Book

Answer: 1(c)

- (i) False
- (ii) False
- (iii) False
- (iv) True

7. (a) Discuss the method of obtaining Audit Evidences.

6

(b) Distinguish between Internal Control and Internal Check

6

Answer: 7(a)

Auditor obtains **evidence** in performing compliances and substantive procedures by any one or more of the following methods-

- (i) **Inspection**-It consists of examining records, documents, or tangible assets. Inspection of records and documents provides evidence of varying degrees of reliability depending on their nature, source and the effectiveness of internal controls over their processing.
- (ii) **Observation**-It consists of witnessing a process or procedure being performed by others.
- (iii) **Inquiry and Confirmation**-Inquiry consists of seeking appropriate information from a knowledgeable person inside or outside the entity, confirmation consists of the response to an inquiry to corroborate information contained in the accounting records.
- (iv) **Computation**-It consists of checking the arithmetical accuracy of source documents and accounting records or performing independent calculations.
- (v) **Analytical Review**-It consists of studying significant ratios and trends and investigating unusual fluctuations and items.

Answer: 7(b)

No.	Basis	Internal Control	Internal Check
1	Way of checking	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 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

Suggested Answer Syl16 Dec2018 Paper 12

3	Point of Time	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
4	Thrust of system	The thrust of internal check systems is to prevent errors	The thrust of internal control lies in fixing of responsibility and division of work to avoid duplication
5	Cost Involvement	The system proves to be costly in case of small businesses because more 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
6	Report	Internal Controls provide for built in MIS reports	The summary of day to day transaction work as report for the senior

8. (a) Discuss the functions and power of the Audit Committee. 6

(b) Discuss the procedure for appointment for first Auditor of the Company and his tenure 6

Answer: 8(a)

Constitution of an Audit committee is mandatory for the:

- (i) Every listed company; and
- (ii) Such directors or classes of the companies, as may be prescribed

An Audit committee shall have minimum 3 Directors, majority of them should be independent Directors. Majority of the members of the Audit Committee should be able to read and understand the financial statements.

Functions of Audit Committee:

- (i) For the appointment and fixation of the remuneration of Auditor
- (ii) Examination of the financial statement
- (iii) Scrutiny of Inter Corporate Loans and Investment
- (iv) Valuation of the Assets of the company
- (v) Evaluation of the internal financial control and risk management system of the entity
- (vi) Evaluation of the use of funds rose through public offers.
- (vii) Evaluation of an related party transaction

Powers of the Audit Committee

- (i) Audit Committee has the power to call for comments of the Auditor about Internal Controls systems and the scope of the audit including its observation
- (ii) Before submission of the report to the Board, the Audit Committee have the power to review the financial Statement
- (iii) Power to discuss any issue with the Statutory and Internal Auditor and the Management of the company in relation to matter contained in the Financial Statement

Answer: 8(b)

Suggested Answer_Syl16_Dec2018_Paper_12

First auditor of the company, other than a Government company, shall be appointed

- By the BOD within 30 days from the date of registration of the company;
- If BOD fails to appoint, by the member of the company within 90 days at an extraordinary general meeting appoint the first auditor[];
- In case of Government company, first auditor shall be appointed by CAG within 60 days from the date of registration;
- If CAG fails to appoint, by the BOD of the company within next 30 days;
- If again BOD fails to appoint the first auditor of the company, by the member of the company within 60 days at an extraordinary general meeting;
- Tenure of the first auditor of the company in both the above cases till the conclusion of the first annual general meeting.

9. (a) Discuss the relevant provisions of Companies (Cost Records and Audit) Rules 2014 on applicability of Cost Audit to different sectors.

6

(b) What is a qualified Audit Report? Discuss the circumstances when an Auditor shall qualify his report.

2+4=6

Answer: 9(a)

Applicability of Cost Audit

The provisions regarding applicability of cost audit is explained in Companies (Cost Records and Audit) Rules 2014. Accordingly,

- (a) The Rules have classified sectors/industries under Regulated and Non-Regulated sectors. The sectors/industries covered under Table A of the Rules are under the Regulated Sector and sectors/industries covered under Table B are under the Non-Regulated Sector.
- (b) Every company, including foreign companies defined in clause (42) of section 2 of the Act, engaged in the production of the goods or providing services, specified in Tables A and B, having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall be required to maintain cost accounting records.

However, foreign companies having only liaison office in India and engaged in production, import and supply or trading of medical devices listed in Sl. 33 of Table B are exempted. Further, companies which are classified as a micro enterprise or a small enterprise including as per the turnover criteria under subsection (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006) are also excluded from the purview of the Rules.

Answer: 9(b)

A Qualified Audit Report is one where an auditor gives an opinion on the truth and fairness of Financial Statements, subject to certain reservations. The Auditor's Reservation is generally stated as: "Subject to the above, we report that the Balance Sheet shows a true and fair view."

Suggested Answer_Syl16_Dec2018_Paper_12

Qualified report is submitted by the auditor when the overall impact of all reservations or qualification taken together is not material enough to vitiate the overall true and fair view of Financial Statements, but it is important that such a matter(s) should be brought to the attention of the shareholders.

The circumstances when an auditor should qualify his report are as follows:

- (i) Where the Auditors are unable to obtain all the information and explanations which they consider necessary for the purpose of their audit, e.g.
 - (a) Absence of satisfactory documentary evidence of the existence of ownership of the material assets, such as, title deeds in respect of land
 - (b) Absence of vouchers in respect of material payments made by the Company,
 - (c) Destruction of books and records by fire or accident,
 - (d) Non-availability of books and records owing to unavoidable circumstances, such as books and records of a foreign branch with which no communication is possible.
- (ii) Where proper books of accounts have not been kept in accordance with the law
- (iii) Where the Balance Sheet and P & L Account are not in agreement with the books of account and returns.
- (iv) When the information required by law is not furnished
- (v) When the accounts do not disclose a true and fair view like-
 - (a) Where the accounting practices followed by the Company are not considered appropriate to the circumstances and nature of the business e.g. treatment of HP Sales as outright sales,
 - (b) Where there has been a change in accounting principles or procedures in relation to material items, such, valuation of stock, depreciation, treatment of by-product cost, etc. without adequate explanation and disclosure of effect of the change.
 - (c) Where difference of opinion with management has arisen regarding valuation or realisability of assets, such as Stock-in-Trade, Debtors, Loans & Advances or the extent of liabilities, contingent or otherwise,
 - (d) Where income or expenditure is not properly reflected so as to show a fair figure of profit for the year,
 - (e) Where information is not required by law to be disclosed but the disclosure of which is considered essential by the Auditors in order to show a true and fair view,
 - (f) Where there is a contravention of the provisions of the Companies Act having a bearing upon the accounts and transactions of the Company e.g. donations to political parties or for political purposes in contravention of Section 182, or contributions to charitable or other funds in excess of the limitation specified in Section 181;

Suggested Answer_Syl16_Dec2018_Paper_12

- (g) Where the Company has contravened the provisions of its Memorandum and Articles of Association.

10. Write short notes (any three):4'3=12

- (a) Auditor's duty regarding unclaimed dividend
- (b) Physical verification of Inventory and Auditor's responsibility thereof
- (c) Audit of Co-operative Society
- (d) Difference between Statutory Audit and Internal Audit

Answer: 10 (a)

In connection with the unclaimed dividend, the auditor must consider the following points:

- (i) He shall collect the list of the names of the shareholders to whom dividend could not be paid.
- (ii) He shall verify the calculation of unclaimed dividend.
- (iii) He shall verify that the unpaid dividend has been transferred to a separate account namely Unpaid Dividend Account within seven days from the expiry of 30 days allowed for declaration and payment of dividend.
- (iv) In case there is any default on the part of the company to deposit the unpaid dividend within the stipulated time as mentioned above, the company needs to pay interest @12% p.a. The auditor must verify whether there is any fault on the part of the company and if so whether they have deposited the interest and the penalty.
- (v) The auditor shall also verify whether the company has published the details of unpaid dividend in its own website and also in other website(s) approved by the government for this purpose.
- (vi) In case the company has made any payment during the year from the Unpaid Dividend Account to any shareholder on his application for the same, the auditor must verify that the payment has been made to the right person and the amount so paid is determined properly.
- (vii) In case any amount of dividend is remaining unpaid for more than seven years, the auditor shall verify whether the same along with the interest accrued thereon has been transferred by the company to IEPF. He shall verify the same based on the statement submitted by the company to the IEPF and the receipt issued by the IEPF in this context.
- (viii) The auditor shall also verify whether all the shares in respect of which unpaid dividend has been transferred to IEPF, have also been transferred to such fund.

Answer: 10 (b)

Suggested Answer_Syl16_Dec2018_Paper_12

Physical verification of inventories is the responsibility of the management of the entity. However, where the inventories are material and the auditor is placing reliance upon the physical count by the management, it may be appropriate for the auditor to attend the inventory taking. The extent of auditor's attendance at inventory taking would depend upon his assessment of the efficacy of relevant internal control procedures, and the results of his examination of the inventory records maintained by the entity and of the analytical review procedures.

According to SA-501 „Audit Evidence-Specific Considerations for Selected Items“, the management ordinarily established procedures under which inventory is physically counted at least once a year to serve as a basis for the preparation of the financial statements and, if applicable, to ascertain the reliability of the entity's perpetual inventory system.

Attendance at physical inventory counting involves:

- (i) Inspecting the inventory to ascertain its existence and evaluate its condition, and performing test counts.
- (ii) Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count, and
- (iii) Obtaining audit evidence as to the reliability of management's count procedures. These procedures may serve as test of controls or substantive procedures depending on the auditor's risk assessment, planned approach and the specific procedures carried out.

Observing the performance of management's count procedures, for example, those relating to control over the movement of inventory before, during and after the count, assists the auditor in obtaining audit evidence that management's instructions and count procedures are adequately designed and implemented. In addition, the auditor may obtain copies of cut off information, such as details of the movement of inventory, to assist the auditor in performing audit procedures over the accounting for such movements at a later date.

In addition to recording the auditor's test counts, obtaining copies of the management's completed physical inventory count records assists the auditor in performing subsequent audit procedures to determine whether the entity's final inventory records accurately reflect actual inventory count results.

Answer: 10 (c)

In general while conducting audit of Co-operative society 'The auditor need to look into the followings:

1. General Points: -

- (i) The auditor should carefully go through the bye-laws of the society and see that they are being observed both in letter and spirit.
- (ii) He should examine the Register of Members of the society and individual shareholdings.
- (iii) He should test-check the internal check and control system operated by the society

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and model his audit examination based on its strengths and weaknesses.

2. **Audit of income:** He should carefully vouch the receipt of cash. Cash receipts on account of share capital should be vouched with the Register of Members. Cash received against sales should be vouched with the cash memos and invoices issued to customers as also Sales Account. Receipt of cash in respect of payment of interest and repayment of loans advanced by the society should be vouched with the loan agreements. Cash received from members towards construction of houses or their maintenance, should be vouched with the Register of Members, demands made by the society from time to time, and money receipts.

3. Audit of Expenditure:

- (i) He should vouch all expenditure with reference to authorization from the Managing Committee, particularly in the case of large capital expenditure, as also the bills received from individual parties, the money receipts obtained from them, and entries in the Bank Pass Book along with counter-foils of cheques.
- (ii) He should vouch the payment of loans from the loan agreements entered into with borrower members.
- (iii) 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.

Other aspects points:

- (i) He should appropriately classify overdue debts for a period from six months to five years and more, and report them to the members, with a note regarding the effects these might have on the financial position of the society.
- (ii) Similarly, he should make a special reference to the overdue amount of interest from members.
- (iii) Writing off bad debts should be after prior authorization from the Managing Committee of the society.

Answer: 10 (d)

Basis	Statutory Audit	Internal Audit
Appointing Authority	Statutory Auditor is appointed by the shareholder in the general meeting	Internal Auditor is appointed by the Board
Scope of the work	The scope of work is defined in the Companies Act	The scope of work includes the adherence of management policies and procedures and identifies the weakness in the internal control
Removal of Auditor	Statutory Auditor can be removed by the shareholders	Internal Auditor can be removed by the Board
Remuneration	It is fixed by the shareholders	It is fixed by the board
Audit Report	It is submitted to the appointing Authority	It is submitted to the Board as a suggestion to improve weakness in

Suggested Answer Syl16 Dec2018 Paper 12

	the internal control
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CMA HUSTLERS

**INTERMEDIATE EXAMINATION
GROUP - II
(SYLLABUS 2016)
SUGGESTED ANSWERS TO QUESTIONS
JUNE - 2019**

Paper-12 : COMPANY ACCOUNTS AND AUDIT

Time Allowed : 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.
Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

The Question paper has two sections, A and B. Both sections are to be answered as per instructions given against each.

**Section – A
(Company Accounts)**

Answer Question No. 1 and any three from Question Nos. 2, 3, 4 and 5.

1. (a) Choose the correct alternative: 1×6=6
- (i) Profit on forfeiture and re-issue of equity shares is credited to
- (A) Dividend Equalization Reserve
 - (B) General Reserve
 - (C) Capital Reserve
 - (D) Securities Premium
- (ii) In a Balance Sheet prepared under Schedule III of Companies Act, 2013, 'Share application money pending allotment' shall be shown
- (A) under Shareholder's Fund
 - (B) under Non-current Liabilities
 - (C) under Current Liabilities
 - (D) as a separate line item.
- (iii) In case of Cash Flow Statement prepared under Direct Method, decrease in current liabilities is
- (A) added to cash flow from operating activities
 - (B) deducted to cash flow from operating activities
 - (C) added to cash flow from investing activities
 - (D) None of the above
- (iv) For calculation of depreciation, Central Electricity Regulatory Commission has recommended
- (A) Straight Line Method
 - (B) Optimized Depreciated Replacement Cost Method
 - (C) Written Down Value Method
 - (D) Both (A) and (B)

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- (v) In case of Electricity Company while calculating depreciation for the purpose of tariff as per Regulation 21, the salvage value of the Asset shall be considered as
- (A) 3%
 (B) 5%
 (C) 10%
 (D) None of the above

- (vi) As per Section 52 of Companies Act 2013, Securities Premium A/c cannot be used
- (A) to issue fully paid up bonus shares
 (B) to pay interim dividend
 (C) to write off the discount on issue of debentures
 (D) to write off the premium on redemption of preference shares

- (b) Match the following items in Column 'A' with items shown in Column 'B': 1x4=4

	Column 'A'		Column 'B'
1.	Underwriting	A.	Issue and Redemption of Preference shares
2.	Borrowing Cost	B.	Firm
3.	Dividend and interest	C.	Qualifying Assets
4.	Section 55 of Companies Act 2013	D.	Investing Activity

- (c) State whether the following statements are True or False: 1x4=4

- (i) Buy-back of shares can also be made out of the proceeds of the earlier issues of the same kind of shares.
- (ii) Transfer to Capital redemption reserve account is not allowed from Dividend Equalization Fund.
- (iii) Operating Lease is a lease which transfers substantially all the risks and rewards incidental to ownership.
- (iv) Machinery purchased by issuing shares is shown under Cash Flow from Investments Activities in Cash Flow Statement.

Answer:

1. (a)

(i)	C
(ii)	D
(iii)	B
(iv)	D
(v)	C
(vi)	B

- (b)

1.	B
2.	C
3.	D
4.	A

- (c)

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(i)	False
(ii)	False
(iii)	False
(iv)	False

2. (a) A company issued 1,50,000 shares of ₹10 each at a premium of ₹10. The entire issue was underwritten as follows:

A - 90000 shares (Firm underwriting 12000 shares)

B - 37500 shares (Firm underwriting 4500 shares)

C - 22500 shares (Firm underwriting 15000 shares)

Total applications received by the company (excluding firm underwriting and marked applications) were 22500 shares.

The marked applications (excluding firm underwriting) were as follows:

A - 15000 shares; B - 30000 shares; C - 7500 shares

Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters.

- (i) Determine the liability of each underwriter (number of shares)
- (ii) Compute the amount payable or due to underwriters.

- (b) A Ltd. has taken the assets on lease from X Ltd. The following information is given below:

Lease Term = 3 years

Fair value at inception of lease = ₹14,00,000

Lease Rent = ₹6,00,000 p.a. at the end of each year Guaranteed

Residual Value = ₹44,000

Implicit Interest Rate = 15% p.a.

Calculate the value of the asset to be considered by A Ltd. and the interest (finance charges) in each year.

Present value of ₹1.00 at 15% is given below:

Year	1	2	3
PVIF (15%)	0.869	0.756	0.657

(5+2)+5=12

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Answer:

2. (a) (i) **Computation of Underwriters' Liability (Number of Shares)**

Particulars	A	B	C
Gross Liability	90,000	37,500	22,500
Less: Marked applications	(15,000)	(30,000)	(7,500)
Less: Unmarked applications in the ratio of (90:37.5:22.5)	(13,500)	(5,625)	(3,375)
Less: Firm Underwriting	(12,000)	(4,500)	(15,000)
Balance	49,500	(2,625)	(3,375)
Less: Surplus of B & C distributed to A	(6,000)	2,625	3,375
Net Liability (excluding firm underwriting)	43,500	Nil	Nil
Add: Firm Underwriting	12,000	4,500	15,000
Total Liability (number of shares)	55,500	4,500	15,000

(ii) **Computation of Amounts payable to Underwriters**

Particulars	₹	₹	₹
Liability towards shares to be subscribed @ ₹ 20 per share	11,10,000	90,000	3,00,000
Less: Commission @ 5% on 1,50,000 shares @ ₹ 20	(90,000)	(37,500)	(22,500)
Net Amount to be paid by Underwriters	10,20,000	52,500	2,77,500

(b) **Calculation of Present value of Minimum Lease Payments**

Year (end)	MLP (₹)	PVIF at 15%	Present Value (₹)
1	6,00,000	0.869	5,21,400
2	6,00,000	0.756	4,53,600
3	6,44,000(6,00,000+44,000)	0.657	4,23,108
			13,98,108

Value of the asset will be the lower of fair value at the inception of lease and present value of MLP plus residual value. Therefore, the value of the asset will be ₹ 13,98,108.

Calculation for Interest (Finance Charge)

Year	Balance Due	Interest @ 15% of Balance Due	Repayment of Capital (₹ 6,00,000 - Interest)	Closing Balance
(1)	(2) ₹	(3) ₹	(4) ₹	(5) = (2)-(4) ₹
1	13,98,108	2,09,716	3,90,284	10,07,824
2	10,07,824	1,51,174	4,48,826	5,58,998
3	5,58,998	83,850	5,16,150	42,848* (Residual Value)

(Alternative Calculation)

Year	Liability (₹)	MLP (₹)	Finance Charge (₹)	Principle Amt. of reduction (₹)
1	13,98,108	—	—	—
2	10,07,824	6,00,000	2,09,716	3,90,284
3	5,58,998	6,00,000	1,51,174	4,48,826

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4	—	6,44,000	83,850	5,60,150
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Note: The difference between this figure and the guaranteed residual value (as per the problem) is due to approximation.

3. (a) Prepare the fire Insurance Revenue Account of Agni Fire Insurance Ltd. as per IRDA regulations for the year ended 31st March, 2019 from the following details:

Particulars	Amount (₹)
Claims paid	6,00,000
Legal Expenses regarding claims	10,000
Premiums received	12,50,000
Re-insurance premium paid	50,000
Commission	3,00,000
Expenses of Management	2,00,000
Provision against unexpired risk as on 1st April 2018	5,75,000
Claims unpaid on 1st April, 2018	50,000
Claims unpaid on 31st March, 2019	80,000

Provide for unexpired risk @ 50% less reinsurance.

- (b) From the following information find out the amount of provisions required to be made in the Profit & Loss Account of a Commercial Bank for the year ended 31st March, 2019:

- (i) Credit outstanding for ₹ 80 lakhs against which the Bank holds securities worth ₹ 20 lakhs. 50% of the above advance is covered by ECGC. The above advance has remained doubtful for more than 3 years.

- (ii) Other advances:

Assets classification	₹ in lakhs
Standard	2,500
Sub-standard	1,800
Doubtful:	
For one year	750
For two years	600
For three years	500
For more than 3 years	350
Loss assets	600

6+6=12

Suggested Answers Syl2016 June 2019 Paper 12

Answer:

3. (a)

Form B - RA

Name of the Insurer: Agni Fire Insurance Ltd.
Revenue Account for the year ended 31st March, 2019

Sr. No	Particulars	Schedule	Amount (₹)
1	Premium earned	1	11,75,000
2	Other income		----
3	Interest, dividend and rent		----
	Total (A)		11,75,000
4	Claims incurred	2	6,40,000
5	Commission	3	3,00,000
6	Operating expenses related to insurance business	4	2,00,000
	Total (B)		11,40,000
	Operating Profit (A - B)		35,000

Schedule 1 : Premium Earned (Net)	(₹)
Premium received	12,50,000
Less: Re-insurance premium	(50,000)
Net Premium	12,00,000
Adjustment for change in reserve for unexpired risks	(25,000)
	11,75,000

Schedule 2 : Claims incurred	(₹)
Claims paid including legal expenses (6,00,000 + 10,000)	6,10,000
Add: Claims outstanding at the end of the year	80,000
Less: Claims outstanding at the beginning of the year	(50,000)
Total Claims Incurred	6,40,000

Schedule 3 : Commission	(₹)
Commission paid	3,00,000

Schedule 4 : Operating Expenses	(₹)
Expenses of Management	2,00,000

Working Note:

Change in the Provision for Unexpired Risk	(₹)
Unexpired risk reserve on 31st March, 2018 = 50% of net premium (i.e., 50% of ₹ 12,00,000)	6,00,000
Less : Unexpired risk reserve as on 1st April, 2018	(5,75,000)
	25,000

(b) (i) Calculation of provision on credit partly secured by ECGC

Particulars	₹ in lakh
Credit outstanding	80.00
Less: Realisable value of securities	20.00
	60.00
Less. ECGC cover (50%)	30.00
Net Unsecured balance	30.00
Provision on unsecured portion (100%)	30.00
Provision on secured portion (100% of 20.00)	20.00
Total provision	50.00

(ii) Calculation of provision on other advances

Assets	Amount (₹ in Lakh)	% of Provision	Provision (₹ in Lakh)
Standard	2500	0.40	10
Sub-standard	1800	15	270
Doubtful:			
For 1 year	750	25	187.50
For 2 years	600	40	240
For 3 years	500	40	200
For More than 3 years	350	100	350
Loss Assets	600	100	600
			1857.50

Total provision to be made = 50.00 + 1857.50 = ₹ 1907.50 lakhs.

4. The following is the Trial Balance of Pioneer Limited as on 31.03.2019:

Particulars		Debit (₹)	Credit (₹)
Equity Capital (Face value of ₹100)		—	10,00,000
Calls in Arrears		1,000	—
Land		2,00,000	—
Building		3,50,000	—
Plant & Machinery		5,25,000	—
Furniture & Fittings		50,000	—
General Reserve		—	2,10,000
Loan from State Financial Corporation		—	1,50,000
Inventory:			
Finished Goods	2,00,000		
Raw Materials	50,000	2,50,000	—
Provision for taxation		—	68,000
Trade Receivables		2,00,000	—
Advances		42,700	—
Dividends Payable		—	60,000

Suggested Answers Syl2016 June 2019 Paper 12

Profit & Loss A/c		—	86,700
Cash Balance		30,000	—
Cash at Bank		2,47,000	—
Loans (unsecured)		—	1,21,000
Trade Payables (For Goods and Expenses)		—	2,00,000
Total		18,95,700	18,95,700

Additional information:

(i) 2000 equity shares were issued for consideration other than cash.

(ii) Trade Receivables of ₹ 52,000 are due for more than six months.

(iii) (a) The cost of assets: 31.03.2019

(b) Depreciation till 31.03.2019

Building — ₹ 4,00,000 Plant & Machinery — ₹ 7,00,000 Furniture — ₹ 62,500 50,000	Building — ₹ 50,000 Plant & Machinery — ₹ 1,75,000 Furniture & Fittings — ₹
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(iv) The balance of ₹1,50,000 in the loan account with State Financial Corporation is inclusive of ₹7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant & Machinery.

(v) Balance at bank includes ₹2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.

(vi) The company had contract for the erection of machinery at ₹ 1,50,000 which is still incomplete.

You are required to prepare Pioneer Limited's Balance Sheet as at 31.03.2019 as per Schedule III in accordance with the Companies Act, 2013 in the Vertical Form along with the Notes to Accounts. Ignore previous years' figures. 12

Answer:

4. If Depreciation on Furniture is considered as ₹50,000, the solution will be as follows:

Balance Sheet of Pioneer Limited as on 31st March, 2019

Particulars	Note No.	Amount (₹ 000)
I. Equity & Liabilities		
(1) Shareholders' Funds:		
(a) Share Capital	1	9,99,000
(b) Reserves & Surplus	2	2,59,200
(2) Non-Current Liabilities		
(a) Long Term Borrowing	3	2,63,500
(3) Current Liabilities:		
(a) Trade Payable		2,00,000
(b) Other Current Liabilities	4	67,500
(c) Short-term provisions	5	68,000
Total		18,57,200

Suggested Answers Syl2016 June 2019 Paper 12

II. Assets		
(1) Non-Current Assets		
Fixed Assets		
Tangible Assets	6	10,87,500
(2) Current Assets:		
(a) Inventories	7	2,50,000
(b) Trade Receivables	8	2,00,000
(c) Cash & bank balances	9	2,77,000
(d) Short-term loans and advances		42,700
Total		18,57,200

Notes to Accounts:

	₹	₹
1. Share Capital		
Equity Share Capital		
Issued, Subscribed & called up		
10,000 equity shares of ₹ 100 each (Of the above 2,000 shares have been issued for consideration other than cash)	10,00,000	
Less : Calls in arrears	(1,000)	9,99,000
Total		9,99,000
2. Reserves & Surplus		
General Reserve		2,10,000
Surplus (Profit & Loss A/c)		49,200
Total		2,59,200
3. Long Term Borrowings:		
Secured		
Term loans		
Loan from State Financial Corporation (1,50,000 - 7,500) (Secured by hypothecation of Plant & Machinery)		1,42,500
Unsecured Loan		1,21,000
Total		2,63,500
4. Other Current Liabilities:		
Interest accrued but not due on loans (SFC)		7,500
Dividend Payable		60,000
Total		67,500
5. Short-term provisions:		
Provision for taxation		68,000
Total		68,000
6. Tangible assets:		
Land		2,00,000
Buildings	4,00,000	
Less: Depreciation	(50,000)	3,50,000
Plant and Machinery	7,00,000	
Less: Depreciation	(1,75,000)	5,25,000
Furniture & Fittings	62,500	

Suggested Answers Syl2016 June 2019 Paper 12

Less: Depreciation	(50,000)	12,500
Total		10,87,500
7. Inventories:		
Raw Materials		50,000
Finished Goods		2,00,000
Total		2,50,000
8. Trade Receivables:		
Debt outstanding for a period exceeding six months		52,000
Other Debts		1,48,000
Total		2,00,000
9. Cash and Bank balances:		
Cash and cash equivalents		
Cash at bank		
With scheduled banks	2,45,000	
With others (Perfect Bank Ltd.)	2,000	2,47,000
Cash in hand		
		30,000
Other bank balances		
		Nil
Total		2,77,000

If Depreciation on Furniture is considered as ₹12,500, the solution will be as follows:

Balance Sheet of Pioneer Limited as on 31st March, 2019

Particulars	Note No.	Amount (₹ 000)
I. Equity & Liabilities		
(1) Shareholders' Funds:		
(a) Share Capital	1	9,99,000
(b) Reserves & Surplus	2	2,96,700
(2) Non-Current Liabilities		
(a) Long Term Borrowing	3	2,63,500
(3) Current Liabilities:		
(a) Trade Payable		2,00,000
(b) Other Current Liabilities	4	67,500
(c) Short-term provisions	5	68,000
Total		18,94,700
II. Assets		
(1) Non-Current Assets		
Fixed Assets		
Tangible Assets	6	11,25,000
(2) Current Assets:		
(a) Inventories	7	2,50,000
(b) Trade Receivables	8	2,00,000
(c) Cash & bank balances	9	2,77,000
(d) Short-term loans and advances		42,700
Total		18,94,700

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Notes to Accounts:

1. Share Capital	₹	₹
Equity Share Capital		
Issued, Subscribed & called up		
10,000 equity shares of ₹ 100 each (Of the above 2,000 shares have been issued for consideration other than cash)	10,00,000	
Less : Calls in arrears	(1,000)	9,99,000
Total		9,99,000
2. Reserves & Surplus		
General Reserve		2,10,000
Surplus (Profit & Loss A/c)		86,700
Total		2,96,700
3. Long Term Borrowings:		
Secured		
Term loans		
Loan from State Financial Corporation (1,50,000 - 7,500) (Secured by hypothecation of Plant & Machinery)		1,42,500
Unsecured Loan		1,21,000
Total		2,63,500
4. Other Current Liabilities:		
Interest accrued but not due on loans (SFC)		7,500
Dividend Payable		60,000
Total		67,500
5. Short-term provisions:		
Provision for taxation		68,000
Total		68,000
6. Tangible assets:		
Land		2,00,000
Buildings	4,00,000	
Less: Depreciation	(50,000)	3,50,000
Plant and Machinery	7,00,000	
Less: Depreciation	(1,75,000)	5,25,000
Furniture & Fittings	62,500	
Less: Depreciation	(12,500)	50,000
Total		11,25,000
7. Inventories:		
Raw Materials		50,000
Finished Goods		2,00,000
Total		2,50,000
8. Trade Receivables:		
Debt outstanding for a period exceeding six months		52,000
Other Debts		1,48,000
Total		2,00,000
9. Cash and Bank balances:		

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Cash and cash equivalents		
Cash at bank		
With scheduled banks	2,45,000	
With others (Perfect Bank Ltd.)	2,000	2,47,000
Cash in hand		30,000
Other bank balances		Nil
Total		2,77,000

Note: Estimated amount of contract remaining to be executed on capital account and not provided for ₹ 1,50,000. It has been assumed that the company had given contract for purchase of machinery.

5. Write short note on (any three):

4×3=12

- (a) Reasons for preparation of Cash Flows
- (b) Differences between Shares & Debentures
- (c) Surrender Value of a Life Insurance Policy
- (d) Finance Lease

Answer:

5. (a) Reasons for preparation of Cash Flows:

Cash Flow statement is considered to be a summarized statement showing sources of Cash Inflows and application of cash outflows of an enterprise during a particular period of time. It is prepared on the basis of the published data as disclosed by the Financial Statement of two different financial periods. It is an essential tool for managerial decision-making. Cash Flow Statement reports the management net Cash Flow (i.e. cash inflow less cash outflow or vice versa) from each activity of the enterprise as well as of the overall business of the enterprise. The management of the enterprise gets a picture of movement of cash resources from the Cash Flow Statement and can assess the stronger and weaker area of movement of cash for different activities of the business for drawing up the future planning.

(b) Difference between Shares & Debentures:

	SHARES	DEBENTURES
Definition	An instrument to acknowledge the ownership of the company.	An instrument to acknowledge the creditors of the company.
Status	A shareholder is the owner and a member of the company.	A debenture holder is not a member but a creditor.
Return	A shareholder may receive dividend only when a company makes a profit.	A debenture holder has a right to interest even if the company does not make profit.
Rate of return	Dividend rate can vary depending on the profit position.	Debenture carries a fixed rate of interest.
Accounting Treatment	Dividend is given out of appropriate profit and not chargeable to Profit & Loss Account.	Debenture interest is chargeable to Profit and Loss Account.
Redemption	In case of shares, the concept of	Debentures are normally

	redemption does not apply. However, as per the recent changes in the Companies Act, a company can buy back shares in accordance with the provisions in the Act.	redeemable although a company can issue perpetual debentures.
Voting rights	A shareholder has voting rights.	A debenture holder can't have voting rights.
Status at the time of winding up	At the time of winding up, shareholders have the least priority regarding the return of amount due to them.	At the time of winding up, debenture holders have a priority over the shareholders regarding the return of amount due to them.

(c) Surrender Value of a Life Insurance Policy

In the case of life policy, the policy normally has value only when it matures. But to facilitate the promotion of business, insurance companies assign value to the policy on the basis of the premiums paid. Insurance companies will be prepared to pay such value on the surrender of the policy by a needy policy holder desiring to realize the policy. Therefore, the value is referred to as 'surrender value'. Surrender value is usually nil until at least two annual premiums are paid. Amount paid as surrender value is an expenditure and is similar to claims paid.

(d) Finance Lease

It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the Lessee by the Lessor but not the legal ownership. In following situations, the lease transactions are called Finance Lease.

- (i) The lessee will get the ownership of leased asset at the end of the lease term.
- (ii) The lessee has an option to buy the leased asset at the end of term at price, which is lower than its expected fair value at the date on which option will be exercised.
- (iii) The lease term covers the major part of the life of asset.
- (iv) At the beginning of lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset.
- (v) The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Section - B

(Audit)

Answer Question No. 6 and any three from Question No. 7, 8, 9 and 10.

6. (a) Choose the correct answer from the four alternatives given: 1×6=6

- (i) A nomination and remuneration committee should have _____ directors.**
(A) 5
(B) 10

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- (C) 2
(D) 3
- (ii) An individual auditor who has completed his term shall not be eligible for reappointment as auditor in the same company for
(A) Next 3 Years
(B) Next 5 Years
(C) Next 7 Years
(D) Next 8 Years
- (iii) Proving the truth means vouching of _____.
(A) payment
(B) expenses
(C) assets
(D) liabilities
- (iv) Secretarial Audit is applicable to the Public Company having the paid-up share capital of ₹ _____.
(A) 50 crore
(B) 75 crore
(C) 100 crore
(D) 200 crore
- (v) Internal Control Questionnaire contains the questions which need to be followed by the _____.
(A) Employer of the organisation
(B) Employee of the organisation
(C) Auditor of the entity
(D) Banker to the organisation
- (vi) Declaration of dividend is covered under section _____ of the Companies Act, 2013.
(A) 122
(B) 123
(C) 124
(D) 125

- (b) Match the following items in Column 'A' with items shown in Column 'B' 1x4=4

	Column 'A'		Column 'B'
1.	CRA-1	A.	Audit Sampling
2.	Verification	B.	Maintenance of Cost Records by the Company
3.	SA 530	C.	Comptroller and Auditor General of India
4.	The authority for Government Audit	D.	Proving the truth

- (c) State whether the following statements are true or false: 1x4=4
- (i) An Audit notebook is a bound book in which a large variety of matters observed during the course of audit are recorded.
- (ii) The concept of true and fair is a fundamental concept in auditing.
- (iii) First auditor of the company is appointed by the Board of Directors within 45 days from the date of first AGM.
- (iv) A Statutory Audit is an official investigation into alleged wrong doing.

Answer:

6. (a) (i) D 3

- (ii) B Next 5 years
- (iii) B expenses
- (iv) A ₹50 crore
- (v) B Employee of the organisation
- (vi) B 123

- (b) 1. B
2. D
3. A
4. C

- (c) (i) True
(ii) True
(iii) False
(iv) False

7. (a) What do you mean by Audit Programme? Discuss the various advantages of an Audit Programme.

(b) Discuss different types of internal control systems with example. (1+5)+6=12

Answer:

7. (a) An audit programme is a detailed plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and the estimated time required. To be more comprehensive, an audit programme is written plan containing exact details with regard to the conduct of a particular audit. It is a description or memorandum of the work to be done during an audit. Audit programme serves as a guide in arranging and distributing the audit work as well as checking against the possibility of the omissions.

Advantages of audit programme

The main advantages of an audit programme are enumerated below;

- (i) It serves as a ready check list of audit procedures to be performed.
- (ii) The audit work can be properly allocated to the audit assistants or the article clerks.
- (iii) The auditor may easily know the extent of work done at any point of time. Thus, the progress of work done can be under the supervision and control of the auditor.
- (iv) Audit programme would not only be useful for the audit assistants in carrying the audit work but for the principal too as he would be in a position to account for the individual responsibilities.
- (v) A uniformity of the work can be attained as the same programme would be followed from time to time.
- (vi) It is a useful basis for planning the programme for the following year it is useful in selection of team members & delegation of responsibilities to them.
- (vii) It may be used as evidence by the auditor in the event when any charge is brought against him.
- (viii) It is useful in selection of Team members and delegation of responsibilities to them.
- (ix) He can prove that there has no negligence on his part and he exercised

reasonable care and skill while performing the task.

(x) It helps in timely completion of the audit work.

(b) Generally, there are two types of Internal Control in an Organisation: preventive and detective controls. Both types of controls are essential to an effective internal control system. From a quality standpoint, preventive controls are essential because they are proactive and emphasize quality. However, detective controls play a critical role by providing evidence that the preventive controls are functioning as intended.

i) **Preventive Controls** are designed to discourage errors or irregularities from occurring. They are proactive controls that help to ensure departmental objectives are being met. Examples of preventive controls are:

- ▢ **Segregation of Duties:** Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions (approval), recording transactions (accounting) and handling the related asset (custody) are divided.
- ▢ **Approvals, Authorizations, and Verifications:** Management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.
- ▢ **Security of Assets (Preventive and Detective):** Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.

ii) **Detective Controls** are designed to find errors or irregularities after they have occurred. Examples of detective controls are:

- ▢ **Reviews of Performance:** Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.
- ▢ **Reconciliations:** An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.
- ▢ **Physical Inventories**
- ▢ **Audits**

8. **(a) Discuss the rights of an auditor according to the Companies Act, 2013.**

(b) How can an auditor, who is appointed under section 139 of the Companies Act, 2013, be removed from his office before the expiry of his term? 8+4=12

Answer:

8. **(a) Rights of an Auditor according to Companies Act 2013:**

- a) **Right to Inspect Books of Accounts and Vouchers:** Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place. In addition, auditor of a holding company shall also have the right of access to the records of all its subsidiaries in so far as it relates to the consolidation of its financial statements with that of its subsidiaries. [Section 143(1)]
- b) **Right to Obtain Information and Explanations:** The auditor shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor. [Section 143(1)]
- c) **Right to Inspect Branch Offices and Branch Accounts:** The company auditor is also entitled to inspect the accounts of any branch office in case he considers it necessary in order to discharge his duties as the company auditor. He can do so even if a separate auditor has already been appointed to audit the branch accounts. [Section 143(8)]
- d) **Right to Receive the Report of Branch Audit from the Branch Auditor:** In case a separate auditor has been appointed to audit the branch accounts, the company auditor has the right to receive the branch audit report from the branch auditor so appointed and use it to prepare the overall audit report. [Section 143(8)]
- e) **Right to Receive Notices and Attend General Meetings:** The company auditor is also entitled to receive all notices of, and other communications relating to, any general meeting and to attend such meetings either by himself or through his authorised representative, who shall also be qualified to be an auditor. The auditor shall also have the right to be heard at such meeting on any part of the business which concerns him as the auditor. [Section 146]
- f) **Right to Sign the Audit Report and Other Documents:** The company auditor also has the right to sign the auditor's report or sign or certify any other document of the company in accordance with the provisions of sub-section (2) of section 141. [Section 145]
- g) **Right to Have Audit Report Read at the AGM:** The company auditor has the right to have the report read before the company in the General Meeting (especially in case the qualifications, observations or comments on financial transactions or matters, mentioned in the auditor's report, have any adverse effect on the functioning of the company) and the same shall be opened to inspection by any member of the company. [Section 145]
- h) **Right to Attend the Meeting of the Audit Committee:** The auditors of a company shall have a right to attend the meetings of the Audit Committee and to be heard in the meetings when the Committee considers the auditor's report but shall not have the right to vote. [Section 177(7)]
- i) **Right to be Indemnified:** The auditor of a company shall also have the right to be indemnified for any expenses incurred by him in defending himself in case the judgement in any law suit (whether civil or criminal) against the company goes in favour of the auditor.

(b) Removal of Auditor before the Expiry of His Term:

The auditor appointed under section 139 may be removed from his office before the expiry of his term subject to the fulfillment of the following conditions under Section 140(1) read with Rule 7 of CAAR 2014.

- a) An application to the Central Government for removal of the auditor shall be made

in Form ADT-2. The application shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.

- b) The application shall be made to the Central Government within thirty days of the resolution passed by the Board.
- c) The company shall hold the general meeting within sixty days of receipt of approval of the Central Government for passing the special resolution for removal of the said auditor.

The auditor concerned shall be given a reasonable opportunity of being heard.

9. (a) With reference to the Companies (Cost Records and Audit) Rules, 2014 as amended, discuss the following:

- (i) Submission of cost audit report to the Board of Directors by the Cost Auditor**
- (ii) Applicability of rotation to Cost Auditors**
- (iii) Remuneration of a Cost Auditor**

(b) "Disclaimer of Opinion and Adverse Report do not serve the same purpose". Discuss.

(2+2+3)+5=12

Answer:

9. (a) (i) Filing of cost audit report to the Board of Directors by the Cost Auditor:

As per sub-rule (4) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 as amended, a Cost Auditor is required to submit the Cost Audit Report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3 to Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates.

(ii) Applicability of rotation to Cost Auditors:

Section 148 also provides that qualifications, disqualifications, rights, duties and obligations applicable to auditors (financial) shall apply to a cost auditor appointed under this section. The eligibility, qualifications and disqualifications are provided in Section 141 of the Act and powers and duties are provided in Section 143.

Section 143(14) specifically states that the provisions of Section 143 shall mutatis mutandis apply to a cost auditor appointed under Section 148. There are no other provisions governing the appointment of a cost auditor.

Section 139(3) of the Act, applicable to appointment of auditors (financial), and Rule 6 of Companies (Audit and Auditors) Rules, 2014 deals with the provision of rotation of auditors and these provisions are applicable only to appointment of auditors (financial). The Act does not provide for rotation in case of appointment of cost auditors and the same is not applicable to a cost auditor. It may, however, be noted that though there is no statutory provision for rotation of cost auditors, individual companies may do so as a part of their policy, as is the practice with Public Sector Undertakings.

(iii) Remuneration of a Cost Auditor:

For the purpose of sub-section (3) of section 148 -

- (a) in the case of companies which are required to constitute an audit committee -
- (i) the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;
 - (ii) the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;
- (b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

(b) Disclaimer of Opinion

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.

A Disclaimer of Opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the Auditor has not been able to obtain sufficient appropriate audit evidence and is, accordingly, unable to express an opinion on the Financial Statements.

It may happen in situations such as -- (a) when books of account of the Company seized by Income-Tax Authorities, (b) when it is not possible for the Auditor to obtain certain information or (c) when scope of audit work is restricted.

The Auditor will state in his Report that he is unable to form an opinion on the Financial Statements. Such Report is called as "Disclaimer of Opinion" Report.

Adverse Report

An Adverse or Negative Report is given when the Auditor concludes that based on his examination, he does not agree with the affirmations made in the Financial Statements / Financial Report.

An Adverse Opinion should be expressed when the effect of a disagreement is so material and pervasive to the Financial Statements, that the Auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the Financial Statements.

The Auditor states that the Financial Statements do not present a true and fair view of the state of affairs and the working results of the organisation. The Auditor should state

the reasons for issuing such a report.

Thus Disclaimer of Opinion and Adverse Report do not serve the same purpose, while the first is appropriate when the auditor is unable to form his opinion due to lack of information the latter is used when he thinks that the financial statements have failed to exhibit true and fair view of the performance and affairs of the company.

10. Write short notes (any three):

4×3=12

- (i) Auditor's duty regarding interim dividend**
- (ii) Audit of Property, Plant and Equipment**
- (iii) Audit of a Charitable Trust**
- (iv) Audit of alteration of Share Capital**

Answer:

10. (a) Auditor's duty regarding Interim Dividend:

In connection with the payment of interim dividend, the auditor must consider the following points:

- a) The auditor should examine the Articles of Association of the company to ascertain whether payment of interim dividend is permitted by the articles or not.
- b) The auditor should also examine the minute book of directors' meeting to verify resolution approving the payment of interim dividend.
- c) The amount of interim dividend shall be deposited in a scheduled bank in a separate account within five days from the date of declaration of such dividend.
- d) Based on the particulars of Dividend Register, the auditor must verify whether the dividend warrants have been issued to rightful owners. In case of payment through electronic mode (ECS), he must verify from the bank statements that the payment has been properly credited to the account of shareholder.
- e) The auditor should verify the Dividend Register and returned dividend warrants to determine the amount of interim dividend that could not be paid. He shall also to enquire the reason for such dividend remaining unpaid and ensure that the legal requirement, in this context, has been duly complied with.

(b) Audit of Property, Plant and Equipment:

An auditor should follow the procedure mentioned below while performing an audit of PPE.

- (i) The auditor must ensure physical verification of the assets to confirm that they exist and are under the possession of the client. He shall ensure that PPE additions up to the date of verification have been updated in the register.
- (ii) He shall specifically ensure that assets that are not in the working condition have been accounted for as deletions.
- (iii) He shall also verify the PPE schedule (asset class wise) maintained by the management and tally the closing balances to the entity's books of accounts.
- (iv) He should also check the arithmetical accuracy of the movement in PPE schedule and reconcile the opening balance with the closing balance of each class of asset by considering the additions and disposals during the year.

- (v) He shall also verify whether appropriate internal processes and procedures like inviting competitive quotations or floating tenders were done before finalising the vendor.
- (vi) The auditor shall check that PPE purchase invoices are in the name of the client that entails the legal ownership.
- (vii) In relation to all deletions, he shall verify management's rationale for deletion. He may also seek any report from the technical expert, if any, that led to such decision of deletion.
- (viii) The auditor shall see that all items of PPE have been carried at cost less accumulated depreciation less accumulated impairment loss.
- (ix) The auditor shall verify whether depreciation has been charged on all items except the freehold land. In case of company, the auditor shall also ensure that depreciation has been calculated in compliance with Schedule II of the Companies Act 2013.
- (x) In case of a company, the auditor should ensure that the all items of PPE have been disclosed in the balance sheet of the company under the head 'Non- current Assets' and subhead 'Fixed Assets' as 'Tangible Asset' as per Schedule III of the Companies Act 2013. (ii) He shall also ensure that all the relevant information has also been disclosed in the 'Notes to Accounts' section.

Alternative Answer:

The term Property, plant and equipment in respect of those entities which are required to comply with the relevant Revised AS refers to such tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.

An asset can be classified as a Property, Plant, Equipment (PPE) or otherwise, depending upon the use to which it is put or intended to be put. For example, assets which are classified as PPE in one type of business may be considered as current assets in another. Similarly, the same asset may be classified differently in an entity at different points of time. The recognition of Property, Plant and Equipment should be done as per the principles laid down in the "relevant applicable AS".

Audit:

- (1) Auditor should review internal controls over acquisition like authorization, capital budgeting etc.
 - (2) Physical verification of Property, Plant and Equipment.
 - (3) Check whether proper records are maintained.
 - (4) Check whether proper depreciation of Property, Plant and Equipment is done, where required.
 - (5) Check supporting documents of acquisition disposal.
 - (6) Check whether scrapping or retirement of Property, Plant and Equipment is properly authorised.
 - (7) Check whether sale proceeds of Property, Plant and Equipment are properly accounted.
 - (8) Check title needs of ownership of Property, Plant and Equipment.
- (c) When conducting the audit of a charitable institution, the auditor should consider the following matters:
- (i) Constitution: The auditor should study the constitution of the charitable

institution, for example, whether it is set up under the Societies Registration Act or as per section 8 of the Companies Act or as a trust.

- (ii) Interest of members: He should obtain a list of members of the governing body. This will help the auditor in identifying whether any of the members of the governing body has any interest in the charitable institution.
 - (iii) Budget: The auditor should obtain a copy of the budget sanctioned or the financial statement.
 - (iv) Internal Check: He should examine the system of internal check, especially as regards to the accounting of the amounts collected.
 - (v) Collection & Deposit of income: He should also check that the amounts received towards income have been duly collected, received and deposited into the bank regularly and promptly.
 - (vi) Subscription and donation: The auditor should check the following with respect to the subscription:
 - § The amount or the rate of the annual subscription.
 - § Any instructions given by the donors as to the specific utilization of donation.
 - § Adequacy of internal controls existing as regards unused receipt books, counter foils, etc.
 - § Where subscriptions are received in advance these should be properly dealt with in the accounts.
 - (vii) Legacies received: He needs to verify the amounts of legacies received by reference to correspondence with any figures and other available information's.
 - (viii) Income from Investment: The amount of dividend and interest received should be properly vouched with reference to the counterfoils or dividend warrants received.
 - (ix) Rent: Rent received must be checked based on tenancy agreement and the rent slips.
 - (x) The auditor should be careful in conducting audit of income and expenditure associated with different concerts and other programmes organised by the institution. All the gross receipts and outgoings are to be properly vouched by him.
 - (xi) He should physically verify the cash in hand, inventories and fixed assets.
- (d)** While conducting the audit of **alteration of share capital of a company**, the auditor should
- (i) Confirm that alteration was authorised by articles.
 - (ii) Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained.
 - (iii) Verify that alteration had been effected in copies of Memorandum, Articles, etc.
 - (iv) Obtain the reasons for which the memorandum of the company is altered.
 - (v) Check whether there is any change in the voting percentage of shareholders due to consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares.
 - (vi) To confirm that the altered share capital's denomination is more than Rupee 1.00.
 - (vii) Verify that proper accounting entries have been passed. Register of members may also be checked to see that the necessary alteration have been effected therein.

- (viii) Must ensure that the alteration has been effected following all the provisions of Section 61 of the Companies Act 2013.

CMA HUSTLERS

Paper 12- Company Accounts & Audit

CMA HUSTLERS

INTERMEDIATE EXAMINATION

GROUP - II

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER – 2019

Paper-12: COMPANY ACCOUNTS AND AUDIT

Time Allowed: 3 Hours

Full Marks : 100

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

Whenever considered necessary, suitable assumptions may be made and Clearly indicated in the answer.

The Question Paper has two sections, A and B. Both sections are to be answered as per Instructions given against each.

Section A (Company Accounts)

Answer Question No. 1 and any three from Question Nos. 2, 3, 4 and 5.

1. (a) Choose the correct alternative:

1x6=6

- (i) At present, a company can issue preference shares which are
- (A) irredeemable.
 - (B) redeemable after the expiry of 20 years from the date of issue.
 - (C) redeemable before the expiry of 20 years from the date of issue.
 - (D) redeemable after the expiry of 25 years from the date of issue.
- (ii) In case of purchase of assets under instalment payment system, instalments due after 12 months from the reporting date are shown as
- (A) Current liability
 - (B) Current assets
 - (C) Non-current liability
 - (D) Non-current assets
- (iii) Bonus paid at the end along with the policy amount to the policy holders is called
- (A) Production bonus
 - (B) Reversionary bonus
 - (C) Gratuitous bonus
 - (D) Maturity bonus
- (iv) In relation to an Electricity Company the amount of security deposit = Load x Load factor of the category in which the customer falls x Current tariff x _____.
- (A) Billing cycle + 45 days
 - (B) Billing cycle + 30 days
 - (C) Billing cycle + 15 days
 - (D) Billing cycle + 20 days
- (v) In case of a Banking Company General Ledger does not contain
- (A) Control Accounts of all personal ledger
 - (B) Assets Accounts
 - (C) Contra Accounts

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(D) Revenue Accounts

(vi) Losses of theft are covered by _____ insurance policies.

- (A) Burglary
- (B) Fire
- (C) Marine
- (D) None of the above

(b) Match the following items in Column 'A' with items shown in Column 'B': 1x4=4

	Column A		Column B
(1)	Contribution on actuarial basis for Gratuity benefits	(A)	AS 17
(2)	Buyback of equity shares	(B)	AS 15
(3)	Capitalization of borrowing costs	(C)	Securities Premium A/c
(4)	Geographical segment	(D)	AS 16

(C) State whether the following statements are True or False: 1x4=4

- (i) Rollover must be with the written consent of the debenture holders.
- (ii) In case of Forfeiture of Shares, a shareholder is not able to pay the further calls and returns his shares to the company for cancellation voluntarily.
- (iii) Cash comprises cash in hand and foreign currency balances.
- (iv) Minimum aggregate value of Paid-up Capital and Reserve in case of a Banking Company incorporated outside India not having place(s) of business in the city of Mumbai or Kolkata or both should be ₹15 lakhs.

Answer :

- 1.(a) (i) (C)
(ii) (C)
(iii) (B)
(iv) (A)
(v) (D)
(vi) (A)

- (b) 1. (B)
2. (C)
3. (D)
4. (A)

- (c) (i) True
(ii) False
(iii) True
(iv) True

2. (a) Moti Ltd. invited applications for issuing 10,00,000 Equity Shares of ₹10 each at a premium of ₹2 per share. The amount was payable as follows:

On Application — ₹5 (including Premium)
One Allotment — ₹4
On First and Final call — ₹3

Applications for 15,00,000 shares were, received. Applications for 3,00,000 shares were rejected and pro rata allotment was made to remaining applicants. Excess application money was utilised towards sum due on allotment. Giri who has applied for 24,000 shares failed to pay the allotment and call money. His shares was forfeited.

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Out of the forfeited shares, 10,000 shares were reissued for ₹8 per share fully paid up.
Pass necessary Journal entries in the books of Moti Ltd. 8

- (b) K Ltd. purchased goods from a US Company for US \$ 50000 on 10.02.2019 and settled the due on 30.06.2019. K Ltd. closes the books of accounts on 31st March. Exchange rates were as follows:

Date	Rate
10.02.2019	47.40
31.03.2019	46.00
30.06.2019	47.80

Calculate the exchange loss/gain on the reporting date and on the settlement date and comment on their treatment as per AS 11. 4

Answer

: 2.(a)

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
	Bank A/c Dr. To Equity Shares Application A/c (Being the application money received on 15,00,000 shares)		75,00,000	75,00,000
	Equity Shares Application A/c Dr. To Equity Share Capital A/c (10,00,000 X ₹3) To Securities Premium Reserve A/c (10,00,000 X ₹2) To Bank A/c (3,00,000 X ₹5) To Equity Share Allotment A/c (2,00,000 X ₹5) (Being the application money adjusted)		75,00,000	30,00,000 20,00,000 15,00,000 10,00,000
	Equity Shares Allotment A/c Dr. To Equity Share Capital A/c (Being the allotment money due)		40,00,000	40,00,000
	Bank A/c Dr. To Equity Shares Allotment A/c Or		29,40,000	29,40,000
	Bank A/c Dr. Calls-in-Arrear A/c Dr. To Equity Shares Allotment A/c (Being the allotment money received except on 20,000 shares)(WN 1)		29,40,000 60,000	30,00,000
	Equity Shares First and Final Call A/c Dr. To Equity Share Capital A/c (Being the First and Final Call money due)		30,00,000	30,00,000
	Bank A/c Dr. To Equity Shares Allotment A/c Or		29,40,000	29,40,000
	Bank A/c Dr. Calls-in-Arrear A/c Dr. To Equity Shares First and Final Call A/c (Being the call money received except on 20,000 shares)		29,40,000 60,000	30,00,000
	Equity Share Capital A/c Dr. To Forfeited Shares A/c To Equity Shares Allotment A/c To Equity Shares First and Final call A/c Or,		2,00,000	80,000 60,000 60,000

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Equity Shares Capital A/c Dr. To Calls-in-Arrear A/c (₹60,000 + ₹60,000) To Forfeited Shares A/c (Being 20,000 shares forfeited due to nonpayment of allotment and call money)		2,00,000	
Bank A/c (10,000 X ₹8) Dr. Forfeited Shares A/c (10,000 X ₹2) Dr. To Equity Shares Allotment A/c (Being 10,000 forfeited shares reissued for ₹8 per share fully paid-up)		80,000 20,000	1,20,000 80,000
Forfeited Shares A/c Dr. To Capital Reserve A/c (Being the gain on re-issue transferred to Capital Reserve account)(WN 2)		20,000	20,000

Working Note-1

Calculation of Money Received on Allotment:

- (i) Pro rata allotment = 12,00,000:10,00,000 = 12:10
- (ii) No. of shares allotted to Giri = 24,000 X 10/12 = 20,000 shares
- (iii) Money received on application from Giri (24,000 shares X ₹5) = ₹1,20,000
 Less: Amount adjusted on application (20,000 shares X ₹5) = ₹1,00,000
 Excess application money adjusted on allotment = ₹20,000
- (iv) Money due from Giri on allotment:
 Money due from on allotment (20,000 X ₹4) = ₹80,000
 Less: Excess application money adjusted [as per (iii)] = ₹20,000
 Money not paid by Giri = ₹60,000
- (v) Money received on allotment:
 Total amount due on allotment (10,00,000 X ₹4) = ₹40,00,000
 Less: Excess application money adjusted = ₹10,00,000
 = ₹30,00,000
 Less: Money not paid by Giri [as per (iv)] = ₹60,000
 = ₹29,40,000

Working Note-2

Calculation of amount transferred to Capital Reserve:

- Amount forfeited on 10,000 shares [₹80,000 X 10/20] = ₹40,000
 Less: Discount on re-issue = ₹20,000
 Gain on re-issue transferred to Capital Reserve = ₹20,000

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- (b) As per AS 11, transactions such as purchase, sales etc. are to be recorded in the books of accounts at the exchange rate prevailing on the date of transaction. Any exchange gain/ loss arising subsequently is to be transferred to Income Statement.

Value of the goods purchased	= \$ 50,000
Exchange rate on the date of transaction	= ₹47.40/\$
So, purchase to be recorded in the books = 50,000 x 47.40	= ₹ 23,70,000
Exchange rate on the date of reporting (31.03.19)	= ₹46.00/\$
Value of the payables on 31.03.19 = 50,000 x 46	= ₹ 23,00,000

Exchange gain on 31.03.2019 = ₹ (23,70,000 – 23,00,000) = ₹ 70,000, to be credited to P/L A/C.

Exchange rate on the date of settlement (30.06.19) = ₹ 47.80/\$

Exchange loss on 30.06.19 = 50,000 x (47.80 – 46.00) = ₹ 90,000 to be debited to P/L A/c.

3. (a) The following figures have been extracted from the books of M Limited for the year ended on 31.03.2019. You are required to prepare a Cash Flow Statement.
- (i) Net profit, before adjusting income tax but after taking into account the following items, was ₹10 lakhs.
- Depreciation on Assets ₹2,50,000.
 - Discount on issue of Debentures written off ₹15,000.
 - Interest on Debentures paid ₹1,75,000.
 - Book value of investment ₹1,50,000 (Sold for ₹1,60,000).
 - Interest received on investments ₹30,000.

(ii) Income tax paid during the year ₹4,80,000.

(iii) 7,500 10% preference shares of ₹100 each were redeemed on 31.03.2019 at a premium of 5%. Further the company issued 25,000 equity shares of ₹10 each at a premium of 20% on 02.04.2018. Dividend on preference shares were paid at the time of redemption.

(iv) Dividends paid for the year 2017-18 ₹2,50,000 and interim dividend paid ₹1,50,000 for the year 2018-19.

(v) Land was purchased on 02.04.2018 for ₹1,20,000 for which the company issued 10,000 equity shares of ₹10 each at a premium of 20% to the land owner as consideration.

(vi) Current assets and liabilities were as follows:

Particulars	31.03.2018 (₹)	31.03.2019 (₹)
Stock	6,00,000	6,59,000
Sundry Debtors	1,04,000	1,06,550
Cash in hand	98,150	17,650
Bills Receivable	25,000	20,000
Bills Payable	22,500	20,000
Sundry Creditors	83,000	85,650
Out standing expenses	37,500	40,900

8

- (b) The books of a Bank include a loan of ₹5,00,000 advanced on 30.09.2017, interest chargeable @ 16% p.a. compounded quarterly. The security for the loan being 7,000 shares of ₹100 each in a public limited company valued @ ₹90 each. There is no repayment till 31.12.2018. On 31.12.2018, the value of shares declined to ₹85 per shares. How would you classify the loan as secured or unsecured in the Balance Sheet? 4

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Answer :

3. (a)

Cash Flow Statement For the year ended 31.03.2019

Particulars	Amount (₹)	Amount (₹)	Amount (₹)
1. Cash Flow from Operating Activities:			
Net Profit		10,00,000	
Add: Adjustment for non-cash expenses			
Depreciation on assets	2,50,000		
Discount on issue of debentures	15,000		
Interest on debentures	<u>1,75,000</u>	<u>4,40,000</u>	
		14,40,000	
Less: Profit on sale of investment (1,60,000 - 1,50,000)	10,000		
Interest received on investment	<u>30,000</u>	<u>(40,000)</u>	
Operating profit before adjustment for changes in W.C.		14,00,000	
Add: Decrease in Bills Receivable (25,000 - 20,000)	5,000		
Increase in Sundry Creditors (85,650 - 83,000)	2,650		
Increase in Outstanding Expenses (40,900 - 37,500)	<u>3,400</u>	<u>11,050</u>	
		14,11,050	
Less: Increase in Stock (6,59,000 - 6,00,000)	59,000		
Increase in Sundry Debtors (1,06,550 - 1,04,000)	2,550		
Increase in Bills Payable (22,500 - 20,000)	<u>2,500</u>	<u>(64,050)</u>	
Less: Income Tax paid		4,80,000	
Net Cash Flow from Operating Activities			8,67,000
2. Cash Flow from Investing Activities:			
Sale of investment		1,60,000	
Interest received on investment		<u>30,000</u>	
			1,90,000
3. Cash Flow from Financing Activities:			
Issue of shares at premium		3,00,000	
Redemption of preference shares at 5% premium		(7,87,500)	
Preference dividend paid		(75,000)	
Interest on debenture paid		(1,75,000)	
Equity dividend paid (2,50,000+1,50,000)		<u>(4,00,000)</u>	
			(11,37,500)
Total Cash Flow (1+2+3)			(80,500)
Add: Opening cash & cash equivalent			98,150
Closing cash & cash equivalent			17,650

Notes: Purchase of land against shares has not been shown in the C/F Statement as it does not amount to any inflow or outflow of cash.

(b)

Date	Particulars	Amount (₹)
31.12.2018	Balance of Loan (Principal)	5,00,000
	Add: Outstanding Interest	1,08,326
	Total Claim	6,08,326
	Less: Value of Security at that date (7,000 shares @ ₹85 per share)	5,95,000
	Balance	13,326

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Classification : Secured Loan ₹ 5,95,000
Unsecured Loan ₹13,326

Workings:

Calculation of Outstanding Interest:

Quarters ending	Interest (₹)	Workings	Closing Balance with Principal (₹)
31.12.2017	20,000	(₹ 5,00,000 × 16% × 3/12)	5,20,000
31.03.2018	20,800	(₹ 5,20,000 × 16% × 3/12)	5,40,800
30.06.2018	21,632	(₹ 5,40,800 × 16% × 3/12)	5,62,432
30.09.2018	22,497	(₹ 5,62,432 × 16% × 3/12)	5,84,929
31.12.2018	23,397	(₹ 5,84,929 × 16% × 3/12)	6,08,326
	1,08,326		

4. The following is the trial balance of Beta Ltd. as on 31.03.2019:

Dr.	Particulars	(₹)	Cr.	Particulars	(₹)
	Stock in trade on 01.04.18	1,50,000		Purchase returns	20,000
	Purchases	4,90,000		Sales	6,80,000
	Salaries	60,000		Discount received	6,000
	Freight, Carriage etc.	1,900		Balance of Profit and Loss (Cr.)	12,000
	Furniture	34,000		Share capital (₹ 10)	2,00,000
	Contribution to P.F.	10,000		Trade payables	49,000
	Rent and Rates	8,000		General reserve	31,000
	Stationary	3,800			
	Repairs	4,000			
	Insurance	6,000			
	Misc. expenses	300			
	Staff welfare expenses	5,000			
	Plant and machinery	58,000			
	Cash at bank	92,400			
	Patents	9,600			
	Trade receivables	65,000			
		9,98,000			9,98,000

You are required to prepare Statement of Profit and Loss for the year ending 31st March, 2019 and Balance Sheet as at that date after taking into consideration the following information:

- (i) Closing stock as at 31.03.2019 is ₹1,76,000.
- (ii) Make a provision for income tax @ 40%.
- (iii) Depreciate plant and machinery @ 15%, furniture @ 10% and patents @ 5%.
- (iv) Outstanding rent ₹1,600 and outstanding salaries ₹1,800.
- (v) The directors recommended a dividend @ 15% after transfer to General Reserve ₹4,000.
- (vi) Dividend Distribution Tax payable at an effective rate of 20.36%.
- (vii) Trade receivables of ₹5,000 are due for more than 6 months. Provide ₹1020 for doubtful debts.

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- (viii) The authorized capital of the company is ₹4,00,000 divided 40,000 equity shares of ₹10 each of which 20,000 shares have been issued and fully paid up. 2,000 shares were, however, issued for consideration other than Cash. 12

Answer :

4.

Beta Ltd.
Balance Sheet as on 31st March, 2019

Particulars	Note No.	As on 31.03.2019 (₹)
EQUITY AND LIABILITIES		
Shareholder's Fund :		
(a) Share Capital	1	2,00,000
(b) Reserve & Surplus	2	1,18,600
Non-Current Liabilities		Nil
Current Liabilities :		
(a) Trade Payables		49,000
(b) Other current Liabilities	3	3,400
(c) Short-Term Provisions	4	50,400
Total		4,21,400
ASSETS		
Non-Current Assets :		
Fixed Assets :		
(a) Tangible Assets	5	79,900
(b) Intangible Assets		9,120
Current Assets :		
(a) Inventories		1,76,000
(b) Trade Receivables	6	63,980
(c) Cash & Cash equivalents	7	92,400
Total		4,21,400

Foot Note: Contingent Liability for Proposed Dividend and DDT = ₹36,108.

Statement of Profit and Loss
for the Year end 31st March, 2019

Particulars	Note No.	31.03.2019 (₹)
Revenue from Operations	8	6,80,000
Other Income	9	6,000
Total Revenue (A)		6,86,000
Expenses:		
Purchase of Stock-in Trade	10	4,70,000
Changes in Inventories of Stock-in-Trade	11	(26,000)
Employee Benefits Expense	12	76,800
Depreciation & Amortization expenses	13	12,580
Other Expenses	14	26,620
Total Expenses (B)		5,60,000
Profit Before Tax (A-B)		1,26,000
Less: Provision for taxation @ 40%		50,400
Profit after tax		75,600

Notes to Accounts:

Particulars	Amount (₹)	Amount (₹)
1. Share Capital		
Amortized: 40000 shares of ₹10 each		4,00,000
issued, subscribed and Paid up: 20000 shares of ₹10 each		2,00,000
Shares issued for consideration other than cash: 2000 shares of ₹10 each		20,000

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2. General Reserves		
As on 1.04.2018	31,000	
Add: Transfer during the year	4,000	35,000
Profit and Loss: As on 1.04.2018	12,000	
Add: Profit during the year	75,600	
	87,600	
Less: Transfer to General Reserve	4,000	83,600
		1,18,600
3. Other Current Liabilities		
Outstanding Rent		1,800
Outstanding Salaries		1,600
		3,400
4. Short Term Provisions		
Provision for Taxation		50,400
5. Fixed Assets		
Tangible Assets		
Plant and Machinery		
	58,000	
Less: Depreciation	8,700	49,300
Furniture		
	34,000	
Less: Depreciation	3,400	30,600
		79,900
Patent		
	9,600	
Less: Amortization	480	9,120
6. Trade Receivables:		
Trade receivable due for more than 6 months		5,000
Trade receivable (Others)		60,000
		65,000
Less: Provision for doubtful debts		1,020
		63,980
7. Cash and Cash Equivalent: Cash at Bank		
		92,400
8. Revenue from Operations: Sales		
		6,80,000
9. Other Income: Discount received		
		6,000
10. Purchase of Stock-in trade: Gross Purchase		
		4,70,000
Less: Returns (4,90,000 – 20,000)		
11. Changes in inventories of Stock-in-trade:		
Opening – Closing (1,50,000 – 1,76,000)		(26,000)
12. Employee benefit expense:		
Salary Add: Outstanding (60,000 + 1,800)	61,800	
Contribution to PF	10,000	
Staff welfare exp.	5,000	76,800
13. Depreciation and Amortization Expenses:		
On Plant and Machinery @ 15%	8,700	

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On Furniture @ 10%	3,400	
Amortization: on Patent @ 5%	480	12,580
14. Other Expenses:		
Rent and rates including outstanding: (8,000+1,600)		9,600
Freight and Carriage		1,900
Stationary		3,800
Repairs		4,000
Insurance		6,000
Miscellaneous Expenses		300
Provision for Doubtful Debts		1,020
		26,620

Working Notes:

1) Dividend for the year proposed :15% on 2,00,000		30,000
2) Dividend distribution tax: 20.36% x 30,000		6,108
		36,108

5. Write short notes (any three):

4x3=12

- (a) Rules for identification of Reportable Segments
- (b) Issue of shares at a premium
- (c) Accounting of depreciation by an Electricity company
- (d) Disclosure requirement under Schedule III with respect to Trade Receivables

Answer :

5. (a)

Rules for identification of Reportable Segments

A business segment or geographical segment should be identified as a reportable segment if:

- (a) its revenue from sales to external customers and from transactions with other segments is 10 per cent or more of the total revenue, external and internal, of all segments; or
- (b) its segment result, whether profit or loss, is 10 per cent or more of -
 - (i) the combined result of all segments in profit, or
 - (ii) the combined result of all segments in loss, whichever is greater in absolute amount; or
- (c) its segment assets are 10 per cent or more of the total assets of all segments.

A business segment or a geographical segment which is not a reportable segment as per the conditions mentioned above, may be designated as a reportable segment despite its size at the discretion of the management of the enterprise. If that segment is not designated as a reportable segment, it should be included as an unallocated reconciling item.

If total external revenue attributable to reportable segments constitutes less than 75 per cent of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 per cent thresholds as mentioned above, until at least 75 per cent of total enterprise revenue is included in reportable segments.

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(b) Issue of Shares at a Premium [Section 52]

A company may issue shares at a premium, i.e., at a value greater than its face value. The power to issue shares at a premium need not be given in the Articles of Association. Premium so received shall be credited to a separate account called Securities Premium Account.

Section 52 of the Companies Act, 2013 gives the purposes for which share premium account may be applied by the company.

These are:

1. For the issue of fully paid bonus shares to the members of the company;
2. For writing off preliminary expenses of the company;
3. For writing off the expenses of the commission paid or discount allowed on any issue of shares or debentures of the company; and
4. For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.
5. For the purchase of its own shares or other securities u/s 68.

(c) Accounting for Depreciation by an Electricity Company:

- i. As per 2009 Regulation, it has been stated in the Tariff Policy that the depreciation rates for the assets shall be specified by the Central Electricity Regulatory Commission (CERC) and these rates of depreciation shall be applicable for the purpose of tariff as well as accounting.
- ii. The Office of the Comptroller and Auditor General of India (CAG) has expressed an opinion that power sector companies shall be governed by the rates of depreciation as notified by the CERC for providing depreciation in respect of generating assets in the account instead of the rates as per the Companies Act, 2013. Accordingly, a Company should revise its accounting policies relating to charging of depreciation w.e.f. 1st April 2009 considering the rates and methodology notified by the CERC for determination of tariff through Regulations, 2009.
- iii. As per 2009 Regulations, depreciation represents a Cash Flow for Repayment of Loan not by allowing Advance against Depreciation but by prescribing higher rates of depreciation for initial years of loan redemption.
- iv. The CERC prescribes following two methods of depreciation:
 - a. The Straight-line Method by application of a fixed rate over the fair life of the asset.
 - b. Optimized Depreciated Replacement Cost (ODRC) based method under which the depreciation could be a method for replacement of the asset.

(d) Disclosure requirement under Schedule III with respect to Trade Receivables

Schedule III Disclosure Requirement	Points
1. Aggregate amount of Trade Receivables outstanding for a period exceeding 6 months from the date they are due for payment should be separately stated.	<ul style="list-style-type: none">• Sch III requires separate disclosure of —Trade Receivables O/s for a period exceeding 6 months from the date they become due for payment, only for the current portion of Trade Receivables.
2. Security-wise Details: Trade Receivables shall be separately sub-classified as – (a) Secured, considered Good (b) Unsecured, considered Good (c) Doubtful.	<ul style="list-style-type: none">• Where no due date is specifically agreed upon, normal credit period allows by the Company should be taken into consideration for computing the due date, which may vary depending upon the Nature of Goods

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<p>3. Bad/Doubtful: Allowance for Bad and Doubtful Loans and Advances shall be disclosed under the relevant heads separately.</p> <p>4. Directors, etc: Debts due by Directors or Other Officers of the Company or any of them either severally or jointly with any other person or debts due by Firms or Private Companies respectively in which any Director is a Partner or a Director or a Member should be separately stated</p>	<p>or Services sold and the Type of Customers, etc.</p> <ul style="list-style-type: none">• Amounts due under contractual obligations, e.g. dues in respect of Insurance Claims, Sale of Fixed Assets, Contractually Reimbursable Expenses, interest Accrued on Trade Receivables, etc, cannot be included within Trade Receivables, such Receivables should be classified as "Other Current Assets" and each such item should be disclosed nature-wise.• Lean Period Activities: Receivables arising out of sale of materials/ rendering of services during a Company's lean period should be included under "Trade Receivables", if such activity is in the normal course of business. If they are not part of "normal course of business", they are to be classified under "Other Assets".
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Section B (Audit)

Answer Question No. 6 and any three from Question Nos. 7, 8, 9 and 10.

6.(a) Identify the correct alternative in each of the following cases:

1x6=6

- (i) Section 146 of the Companies Act, 2013 deals with
- (A) Auditor not to render certain services
 - (B) Auditor to sign Audit Reports
 - (C) Auditor to attend general meeting
 - (D) Punishment for contravention
- (ii) Which of the following is not included in the Current Audit File?
- (A) Memorandum and Articles of Association
 - (B) Current year's audit programme
 - (C) Internal Control Questionnaire
 - (D) Copies of budget
- (iii) Which of the following is not an external audit evidence?
- (A) Quotations
 - (B) Confirmation from debtors
 - (C) Goods Received Note
 - (D) Confirmation from bankers
- (iv) The _____ shall act as the secretary of the Audit Committee.
- (A) Auditor
 - (B) Managing Director
 - (C) Comptroller and Auditor General
 - (D) Company Secretary
- (v) Cost Auditor is appointed by
- (A) Audit Committee
 - (B) Board of Directors

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- (C) Board of Directors on recommendation from Audit Committee
(D) None of the above

(vi) Remuneration of Auditors is covered under the following section of Companies Act, 2013:

- (A) Section 142
(B) Section 148
(C) Section 139
(D) Section 143

(b) Match the following items in Column 'A' with items shown in Column 'B': 1x4=4

Column A		Column B	
(1)	Section 144 of the Companies Act	(A)	Fundamental Accounting Assumption
(2)	Reporting of fraud by Auditor to Central Government	(B)	External and Internal Audit
(3)	Functional Classification of Audit	(C)	Form ADT-4
(4)	Going Concern	(D)	Auditors not to render certain services

(c) State whether the following statements are True or False: 1x4=4

- (i) An audit work reflects the work done by the Management.
(ii) "Branch Office" in relation to a Company means any establishment described as such by the Company.
(iii) Cooling period of the individual auditor is 2 consecutive terms of 5 years.
(iv) There is no difference between Statutory and External audit.

Answer :

6. (a) (i) (C)
(ii) (A)
(iii) (C)
(iv) (D)
(v) (C)
(vi) (A)

- (b) 1. (D)
2. (C)
3. (B)
4. (A)

- (c) (i) False
(ii) True
(iii) False
(iv) False

7. (a) Discuss the basic principles of governing an audit as per SA 200. 6

(b) "The existence of a good internal check system reduces to a great extent the work of the auditor but does not reduce his liability."— Discuss. 6

Answer:

7. (a) SA 200 issued by ICAI (CA) gives the following basic principles that govern the auditor's responsibilities whenever an audit is carried out:

Suggested Answers_Syl 2016_December 2019_Paper 12

- (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.
7. (b) In an organisation, an auditor is appointed to authenticate the books of accounts and final financial statements based on all available evidences. He is also to express an unbiased opinion on the exhibition of true and fair view of the financial performance and financial state of affairs through the Income Statement and the Balance Sheet respectively. Thus keeping in mind such an objective the auditor needs to decide the extent of examination that he should conduct to arrive at any conclusion. The auditor, in this context, can resort to either detailed checking or test checking. Detailed checking refers to the examination of books of accounts in detail. Test checking, on the other hand, is the technique of checking some transactions selected as sample from the group of transactions and drawing conclusion on that basis, taking sample transactions selected to be the representative of the remaining transactions. Detailed checking is time consuming as well as laborious whereas test checking relieves the auditor from such pain. Thus, in actual practice, often the auditor is found reporting to test checking, provided the internal check system is satisfactory. Reliance on an effective internal check system and thereby streamlining the audit process enables the auditor to devote more time in examining the critical areas of accounting including valuation of closing stock, valuation of assets and liabilities, determining the reasonableness of provisions etc. However, such reliance simultaneously increases the risk of the auditor. This is because even a sound internal check system cannot guarantee the non-existence of any error or fraud in the accounts. Thus, when the auditor applies test checking instead of a detailed checking, there is every possibility that any such error or fraud remains undetected.
8. (a) Discuss the provisions relating to 'Punishment for Contravention' under section 147 of the companies Act 2013. 6
- (b) List down the certain services which are not to be rendered by the Auditor of a Company. 6

Answer :

8. (a) Punishment for Contravention (Section 147):

Suggested Answers_Syl 2016_December 2019_Paper 12

- (1) If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees, or with both.
- (2) If an auditor of a company contravenes any of the provisions of section 139, section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees or four times the remuneration of the auditor, whichever is less.

Provided that if an auditor has contravened such provisions knowingly or willfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees or eight times the remuneration of the auditor, whichever is less.

- (3) Where an auditor has been convicted under sub-section (2), he shall be liable to—
 - (i) refund the remuneration received by him to the company; and
 - (ii) pay for damages to the company, statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.
- (4) The Central Government shall, by notification, specify any statutory body or authority or an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of subsection (3) and such body, authority or officer shall after payment of damages to such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.
- (5) Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil or criminal as provided in this Act or in any other law for the time being in force, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally.

Provided that in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.

(b) AUDITOR NOT TO RENDER CERTAIN SERVICES [SECTION 144]

An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case maybe, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company) namely:—

- (a) accounting and book keeping services;
- (b) internal audit;
- (c) design and implementation of any financial information system;
- (d) actuarial services;
- (e) investment advisory services;
- (f) investment banking services;
- (g) rendering of outsourced financial services;
- (h) management services; and

Suggested Answers_Syl 2016_December 2019_Paper 12

- (i) any other kind of services as may be prescribed.

Provided that an auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of such commencement.

Explanation :— For the purposes of this sub-section, the term “directly or indirectly” shall include rendering of services by the auditor:-

- i. in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual;
- ii. in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners.

9. (a) With reference to the Companies (Cost records and Audit) Rules 2014, as amended, discuss provisions relating to maintenance of cost accounting records and cost audit. 6

(b) Discuss briefly some of the situations calling for qualifications in Audit Report. 6

Answer:

9. (a) With reference to the Companies (Cost Records and Audit) Rules 2014, as amended:

The provisions regarding Maintenance of Cost Accounting Records and Cost Audit are as follows –

The Rules state that cost records are to be maintained in Form CRA-1, which provides principles to be followed for different cost elements. The principles are in sync with the cost accounting standards issued by the Institute of Cost Accountants of India. Since the Rules are principle based, no format has been prescribed for maintenance of cost accounting records like pre-2011 industry specific rules. It is opened for industry to maintain cost accounting records according to its size and nature of business so long as it determines a true and fair view of the cost of production, cost of sales and margin of the products/services. The cost audit report is required to be in conformity with the “cost auditing standards” as referred to in Section 148 of the Companies Act, 2013. It may be noted that the Council of the Institute of Cost Accountants of India has made it mandatory for cost accountants in practice to follow and conform to the Cost Accounting Standards issued by it and it is incumbent on the cost auditors to report any deviations from cost accounting standards.

(b) Some situations calling for qualifications in Audit Reports are :

- i. Where the Auditors are unable to obtain all the information and explanations which they consider necessary for the purposes of their audit, e.g. –

(a) Absence of satisfactory documentary evidence of the existence of ownership of the material assets, such as, title deeds in respect of land,

Suggested Answers_Syl 2016_December 2019_Paper 12

- (b) Absence of vouchers in respect of material payments made by the Company,
 - (c) Destruction of books and records by fire or accident,
 - (d) Non-availability of books and records owing to unavoidable circumstances, such as books and records of "a foreign branch with which no communication is possible.
- ii. Where proper books of accounts have not been kept in accordance with the law.
 - iii. Where the Balance Sheet and P&L Account are not in agreement with the books of account and returns.
 - iv. When the information required by law is not furnished.
 - v. When the accounts do not disclose a true and fair view like –
 - (a) Where the accounting practices followed by the Company are not considered appropriate to the circumstances and nature of the business e.g. treatment of HP Sales as outright sales,
 - (b) Where there has been a change in accounting principles or procedures in relation to material items, such valuation of stock, depreciation, treatment of by-product cost, etc. without adequate explanation and disclosure of effect of the change,
 - (c) Where difference of opinion with management has arisen regarding valuation or realisability of assets, such as Stock-in-Trade, Debtors, Loans & Advances or the extent of liabilities, contingent or otherwise,
 - (d) Where income or expenditure is not properly reflected so as to show a fair figure of profit for the year,
 - (e) Where information is not required by law to be disclosed but the disclosure of which is considered essential by the Auditors in order to show a true and fair view,
 - (f) Where there is a contravention of the provisions of the Companies Act having a bearing upon the accounts and transactions of the Company e.g. donations to political parties or for political purposes in contravention of Section 182, or contributions to charitable or other funds in excess of the limitation specified in Section 181;
 - (g) Where the Company has contravened the provisions of its Memorandum and Articles of Association.

10. Write short notes (any three):

4x3=12

- (a) **Branch Audit**
- (b) **Information Systems Audit**
- (c) **Audit of Municipalities and Panchayats (Local Bodies)**
- (d) **Audit of interest on debentures**

Answer :

10 (a) Branch Audit

"Branch office", in relation to a company, means any establishment described as such by the company - section 2(14) of the 2013 Act. Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company (herein referred to as the company's auditor) under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country and the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be such as may be prescribed.

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Provided that the branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

(b) Information Systems Audit:

According to Ron Weber, "Information systems auditing is an organizational function that evaluates asset safeguarding, data integrity, system effectiveness, and system efficiency in computer based information systems". It has arisen for seven major reasons:

- i. The consequences of losing the data resource;
- ii. The possibility of misallocating resources because of decision based on incorrect data or decision rules;
- iii. The possibility of computer abuse if computer systems are not controlled;
- iv. The high value of computer hardware, software, and personnel;
- v. The high costs of computer error;
- vi. The need to maintain the privacy of individual persons; and
- vii. The need to control the evolutionary use of computers.

(c) Audit of Municipalities and Panchayats (Local Bodies)

The major objective of audit of Municipalities and Panchayats are enumerated below;

- (i) To ensure on the fairness and correctness of contents in the Financial Statement
- (ii) To report on adequacy of Internal control
- (iii) To ensure value of money is fully received on amount spent
- (iv) To detect the frauds and errors.

The following points are to be considered necessary for carrying on audit of Municipalities and panchayats (Local Bodies);

- (i) To ensure that the expeditors incurred conform to the relevant provision of the law and is in accordance with the financial Rules and regulation formed by the compliant authority.
- (ii) To ensure that sanction is accorded by the competent authority either special or general.
- (iii) To ensure that there is provision of funds for expenditure and is authorized by competent Authority.
- (iv) To ensure that where huge financial expenditure is made is run economically and is expected to contribute growth.

(d) Audit of interest on debentures:

A predetermined fixed rate of interest is payable on debentures irrespective of the fact that company has earned the profit or not. Debenture holders are creditors of the company, they are not the owners. They have no voting powers and cannot influence the management but their claim of interest rank ahead of the claims of the shareholders. Auditor's Duty:

- i. The payment of interest should be vouched by the auditor with the acknowledgement of the debenture-holders, endorsed warrants and in case of bearer debentures with the coupons surrendered.
- ii. The auditor should reconcile the total amount paid with the total amount due and payable with the amount of interest outstanding for payment.
- iii. He should ensure that the interest paid on debenture like that on other fixed loans, must be disclosed as a separate item in the Profit & Loss Account.

SUGGESTED ANSWERS TO QUESTIONS

INTERMEDIATE EXAMINATION

GROUP – II

(SYLLABUS 2016)

DECEMBER – 2021

Paper-12: COMPANY ACCOUNTS AND AUDIT

Time Allowed: 3 Hours

Full Marks : 100

Section A MCQ

20X1=20 Marks

Q.1 In case of an Electricity Company, balance of Security Deposit A/c at the end of the accounting period should be disclosed as

- Ans
1. A non-current asset in the Balance Sheet
 2. A current liability in the Balance Sheet
 - ✓ 3. A non-current liability in the Balance Sheet
 4. A current asset in the Balance Sheet

Q.2 Which of the following is a part of functional classification of audit?

- Ans
1. Continuous audit
 - ✓ 2. Internal audit
 3. Cost audit
 4. Tax audit

Q.3 The term „FPO“, in the context of issuing shares by a company, refers to

- Ans
1. Future Public Offer
 2. First Public Offer
 - ✓ 3. Follow-on Public Offer
 4. Full Public Offer

Q.4 Which of following is not a source of dividend?

- Ans
1. Out of current year's profit after providing for past losses
 - ✓ 2. Out of profits of any previous financial year without providing depreciation
 3. Out of profits for current year after providing for depreciation for current year
 4. Out of past reserves subject to certain conditions

Q.5 Partly paid-up preference shares can be redeemed

- Ans
1. After obtaining the permission from Company Law Board
 2. After passing a special resolution
 3. After the permission from the Board Of Directors
 - ✓ 4. After making them fully paid up

Q.6 Which of the following services by an auditor is not restricted under Section 144 of the Companies Act 2013?

- Ans
1. Actuarial services
 2. Rendering outsourced financial services
 3. Investment Advisory Services
 - ✓ 4. Issuing Deposit Return Certificate

Q.7 Appointment of a cost auditor is communicated to the Central Government through

- Ans
1. CRA 1
 2. CRA 4
 - ✓ 3. CRA 2
 4. CRA 3

Q.8 Cooling period of an individual auditor is

- Ans
1. Two consecutive terms of 5 years each
 2. One term of 4 years
 3. Two consecutive terms of 4 years each
 - ✓ 4. One term of 5 years

Q.9 Secretarial Audit is applicable to the Public company having turnover of at least

- Ans
1. Rs.100 crores
 - ✓ 2. Rs.250 crores
 3. Rs.300 crores
 4. Rs.200 crores

Q.10 Proposed Dividend by a company is

- Ans
- ✓ 1. Appropriation of profit
 2. None of these
 3. Charge against the profit
 4. Deferred revenue expenditure

Q.11 A company may purchase its own shares out of

- Ans
1. free reserves
 - ✓ 2. all of these
 3. securities premium account
 4. proceeds of the issue of any shares or other specified securities

Q.12 Copies of management letters are a part of

- Ans
1. None of these
 - ✓ 2. Current Audit File
 3. Permanent Audit File
 4. Both Current and Permanent Audit File

Q.13 For the issuer, unpaid matured debentures and interest accrued thereon will be shown under the head

- Ans
1. Non-current liabilities
 2. Non-current assets
 3. Current assets
 4. Current liabilities

Q.14 Minimum penalty payable by a company for contravention of any provisions of Section 139 to 146 (both inclusive) of Companies Act 2013 is

- Ans
1. Rs.25000
 2. Rs.100000
 3. Rs.30000
 4. Rs.15000

Q.15 An audit report with certain reservations is also known as

- Ans
1. Disclaimer of opinion
 2. Clean report
 3. Piecemeal report
 4. Qualified report

Q.16 Which of the following is/ are the quantitative threshold(s) while identifying the reportable segments as per AS 17?

- Ans
1. 10% of the aggregate segment assets
 2. 10% of the aggregate segment result
 3. 10% of the aggregate total revenue
 4. All of these

Q.17 How should the revaluation of Fixed Assets be treated in a Cash Flow Statement?

- Ans
1. Under cash flow from financing activities
 2. Do not appear in cash flow statement
 3. Under cash flow from operating activities
 4. Under cash flow from investing activities

Q.18 SA 210 stands for

- Ans
1. Audit Documentation
 2. Audit Working Papers
 3. Agreeing the terms of Audit Engagements
 4. Audit Planning

Q.19 Which of the following are mandatory financial statements of a General Insurance Company as per IRDA regulations?

- Ans**
1. Balance Sheet
 2. Profit and Loss Account
 - ✓ 3. All of these
 4. Revenue Account

Q.20 Grant received specifically for a fixed asset is disclosed in the financial statement:

- I. By way of deduction from the gross block of asset
- II. The grant is treated as deferred revenue income and charged off on a systematic basis over the useful life of asset.

Which of the following is correct?

- Ans**
1. Both I and II
 - ✓ 2. Either I or II
 3. Only II
 4. Only I

CMA HUSTLERS

Q.1 Under what type of insurance business, claim will arise either on death of insured or on maturity of policy?

Answer :

Life

Q.2 Where is Debenture Redemption Reserve transferred after the redemption of all Debentures?

Answer :

General Reserve Account

Q.3 What is the name given to the part of capital of a company which is called up only on winding up?

Answer :

Reserve Capital

Q.4 Fill in the blank:

As per SQC 1, an auditor needs to retain the working papers for a period of _____ years.

Answer :

Seven (7)

Q.5 Fill in the blank:

Cost audit report is submitted by the company to the Central Government within _____ days from the receipt of a copy of the cost audit report from the cost auditor.

Answer :

Thirty (30)

Q.6 Fill in the blank:

_____ is a continuous critical review of financial and operating activities of a concern by appointed entity/person.

Answer :

Internal Audit

Q.7 Cash Flow arising from which of the following Operating, Investing or Financing Activities may be reported on a net basis? Name one item.

Answer :

Cash receipts and payments on behalf of customers when the cash flow reflect the activities of the customer rather than those of the entity OR cash receipts and payments for items in which turnover is quick, the amounts are large, and the maturities are short

Q.8 Fill in the blank:

The maximum amount beyond which a company is not allowed to raise funds by Issue of Share is known as_____.

Answer :

Nominal Capital

Q.9 What is the maximum number of members in Central Electricity Authority?

Answer :

14

Q.10 Fill in the blank:

Form CRA_____ is related to appointment of Cost Auditor.

Answer :

CRA 2

Q.11 Name the account to which dividend not paid or claimed for seven consecutive years or more is to be transferred.

Answer :

Investors Education and Protection Fund

Q.12 Fill in the blank:

Interest received by a finance company on loans granted to borrowers is shown under the head___in the Statement of Profit and Loss.

Answer :

Revenue from Operations

Q.13 Fill in the blank:

Segment Reporting is covered under Accounting Standard_____.

Answer :

AS 17

Q.14 How will you treat Bank overdraft and Cash Credit in the Balance Sheet of a Company ?

Answer :

Short term borrowing

Q.15 Fill in the blank:

Every buyback of shares must be completed within a period of___from the date of Passing special resolution.

Answer :

Within time limit as fixed in General Meeting

Q.16 Fill in the blank:

Internal Auditor is appointed by the_____.

Answer :

Management

Q.17 Can the balance of Securities Premium Account be utilized for making existing partly paid-up equity shares into fully paid-up?

Answer :

No.

Q.18 In case of Government Audit who is the supreme Audit Institution?

Answer :

Comptroller and Auditor General

Q.19 Fill in the blank:

A Banking Company is required to maintain_____percentage provision on unsecured portion of doubtful advances.

Answer :

100%

Q.20 What are the important contents of Permanent Audit File? (Name at least three)

Answer :

Memorandum and Articles of Association, copies of Financial statements of Previous years, significant Audit observations of previous years.

Section : C
(12X4= 48 Marks)

One LAQ

Q.1

L Ltd. leased a machine to T Ltd. on the following terms:

3+3= 6 Marks

Sr. No.	Particulars	(Rs in Lakhs)
(i)	Fair Value of the machine	72
(ii)	Lease Term	5 Years
(iii)	Lease rental per annum	12
(iv)	Guaranteed residual value	2.40
(v)	Expected residual value	4.50
(vi)	Internal rate of return	15%

Discounted rates @15% for 1st Year to 5th Year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

From the above calculate

- I) **Gross investment in the lease**
- II) **Unearned Finance Income.**

Answer :

- i) **Gross investment in the lease**
= Rs.64,50,000
- ii) **Unearned Finance Income.**
= Rs. 22,03,620

Q.2

Total borrowing and interest cost for the year ending on 31.03.2020 are given below:

3+3= 6 Marks

Borrowing	Date of Borrowing	Amount (Rs.)	Interest (Rs.)
8% Term Loan	1.4.2019	20,00,000	1,60,000
8% Bank Loan	1.7.2019	60,00,000	3,60,000
6% Debentures	1.10.2019	40,00,000	1,20,000
		1,20,00,000	6,40,000

Qualifying assets in which these funds are utilized are:

Particulars	Amount (Rs.)	Period
Factory Shed	20,00,000	12 months
Plant A	14,00,000	8 months
Plant B	9,00,000	6 months

From the above information, calculate

- (i) **Capitalization rate**
- (ii) **Total interest cost to be capitalized.**

Answer:

- i) **Capitalization rate = 7.5%(approximately)**
- ii) **Total interest cost to be capitalized = Rs. 2,53,750**

Q.1

The following information has been provided by XYZ Ltd.

3+3+3+3= 12 Marks

Balance Sheet of XYZ Ltd.

	Particulars	Note No.	As on 31.03.2021	As on 31.03.2020
I	Equity and Liabilities			
	1. Shareholders' fund			
	(a) Share Capital		18,40,000	18,40,000
	(b) Reserves and Surplus	1	6,64,000	6,08,000
	2. Share application money pending allotment		Nil	Nil
	3. Non-Current Liability			
	(a) Long Term Borrowings (10% Debentures)		5,60,000	7,20,000
	4. Current Liabilities			
	(a) Trade Payables		7,68,000	8,24,000
	(b) Short term Provisions (Provision for Tax)		96,000	1,04,000
	Total		39,28,000	40,96,000
II	Assets			
	1. Non-current Assets			
	(a) Fixed Assets			
	(i) Tangible Assets	2	14,08,000	12,96,000
	(b) Non-current Investment		5,92,000	8,80,000
	2. Current Assets			
	(a) Inventories		8,48,000	6,56,000
	(b) Trade Receivables		3,44,000	5,36,000
	(c) Cash and Cash Equivalent		7,20,000	7,20,000
	(d) Short term loan and advances (Prepaid Expenses)		16,000	8,000
			39,28,000	40,96,000

Notes to Accounts:

		As on 31.03.2021	As on 31.03.2020
1.	Reserve and Surplus		
	Balance of Profit	1,84,000	1,28,000
	General Reserve	4,80,000	4,80,000
		6,64,000	6,08,000
2.	Tangible Assets		
(a)	Land	12,00,000	12,00,000
	Machinery (Gross Block)	5,60,000	4,16,000
	Provision for depreciation	3,52,000	3,20,000
(b)	Machinery (Net Block)	2,08,000	96,000
	(a)+(b)	14,08,000	12,96,000

Additional information:

- (i) 10% dividend was paid during the year.
- (ii) Machinery for Rs.2,40,000 was purchased and old machinery costing Rs.96,000 (accumulated depreciation Rs. 48,000) was sold for Rs. 32,000.
- (iii) Rs. 1,60,000, 8% debentures were redeemed by purchase from open market at Rs.96 for a Debenture of Rs. 100. Redemption was carried out on 31.03.2021.
- (iv) Investments worth Rs. 2,88,000 were sold at a loss of Rs. 8,000.
- (v) Income tax paid during the year amounted to Rs. 80,000.

From the above information

- a. Determine the fund from operation
- b. Calculate Cash Flow from operating activities
- c. Calculate Cash Flow from investing activities
- d. Calculate Cash Flow from financing activities

Answer:

- a) Fund from operation = Rs. 4,09,600
- b) Cash Flow from operating activities : Rs. 3,37,600
- c) Cash Flow from investing activities : Rs. 72,000
- d) Cash Flow from financing activities : Rs. (4,09,600)

Q. 1

2+2= 4 Marks

M Ltd. sold goods to a US Company for US \$ 1,00,000 on 10.01.2021 and realized the due on 30.06.2021. Y Ltd. closes the books of accounts on 31st March every year.

Exchange rates were as follows:

Date	Rate (Rs.)
10.01.2021	69.20
31.03.2021	76.10
30.06.2021	74.30

- i) Calculate the exchange loss/gain on the reporting date.
- ii) Calculate the exchange loss/gain on the settlement date.

Answer:

- i) Exchange gain on the reporting date. (31.03.2021) = Rs.6,90,000
- ii) Exchange loss on the settlement date. (30.06.2021) = Rs. 1,80,000

Q.2 Discuss various methods of obtaining audit evidence.

Answer:

Auditor obtains evidence in performing compliance and substantive procedures by any one or more of the following methods –

(a) **Inspection** - It consists of examining records, documents, or tangible assets. Inspection of records and documents provides evidence of varying degrees of reliability depending on their nature, source and the effectiveness of internal controls over their processing.

(b) **Observation** - It consists of witnessing a process or procedure being performed by others.

(c) **Inquiry and Confirmation** - Inquiry consists of seeking appropriate information from a knowledgeable person inside or outside the entity, Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records.

(d) **Computation** - It consists of checking the arithmetical accuracy of source documents and accounting records or performing independent calculations.

(e) **Analytical Review** - It consists of studying significant ratios and trends and investigating unusual fluctuations and items.

Q.3 What are the duties of Statutory Auditor regarding reissue of forfeited shares?

Answer:

Auditor's duty regarding Re-issue of forfeited shares

- i) The auditor should ascertain that the board of directors has the authority under the Articles of Association of the company to reissue forfeited shares. Check the relevant resolution of the Board of Directors.
- ii) Vouch the amounts collected from the persons to whom the shares have been allotted and verify the entries recorded from re-allotment. Auditor should check the total amount received on the shares including received prior to forfeiture, is not less than par value shares.
- iii) Verify that the computation of surplus amount arising on the reissue of shares credited to Capital Reserve Account and
- iv) Where partly paid shares forfeited for non-payment of call, and re-issued as fully paid, the reissue is considered as an allotment at a discount and compliance of the provisions of Section 53 is essential.

Q.1 Discuss the provisions for reporting of Frauds by Auditors.

4 Marks

Answer:

Provisions for reporting of Fraud by Auditor

- 1) For the purpose of sub-section (12) of section 143, in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below
 - (i) Auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;
 - (ii) On receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
 - (iii) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.
- (2) The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an e-mail in confirmation of the same.
- (3) The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number.
- (4) The report shall be in the form of a statement as specified in Form ADT-4.
- (5) The provision of this rule shall also, mutatis mutandis, to a cost auditor and a secretarial auditor during the - performance of his duties under section 148 and section 204 respectively.

Q.2 Discuss the importance of internal control system in an organization.

4 Marks

Answer:

The various benefits accrue out of the Internal control system are enumerated below;

- i) **Attainment of goal & Objectives:** - A sound internal control helps the entity towards the attainment of goal & objective of the business.
- ii) **Reliable financial Information:** A sound internal control helps the organization to set reliable financial information for managerial decision making.
- iii) **Compliance with law & Regulations:** Sound Internal control system ensures various compliance with laws & regulation prevailing in the country .
- iv) **Efficient & Effective operation:** - A sound internal control system ensures efficient and effective operations that accomplish the goals of the organizations and protect employees and assets of the business.
- v) **Prevention of fraud & errors:** - A sound internal control system prevents and detects frauds and errors and ensures timely preparations of financial statements and various reports for decision making.

Q. 3 List the services that an Auditor cannot render U/S 144 of Companies Act 2013

4 Marks

Answer:

- i) Accounting and bookkeeping services.
- ii) Internal audit.
- iii) Design and implementation of financial information system .
- iv) Actuarial services .
- v) Investment advisory services .
- vi) Investment banking services .
- vii) Rendering of outsourced financial services .
- viii) Management services.

Q.1 Discuss the features of Cost Audit Report.

4 Marks

Answer:

Cost Audit Report:

As per sub-rule (4) of Rule 6 of the companies (Cost Records and Audit) Rules 2014 as amended, a Cost Auditor is required to submit the Cost Audit Report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3 to Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates. Form for filling Cost Audit Report with the Central Government: As per sub-rule (6) of Rule 6 of the companies (Cost Records and Audit) Rules 2014 as amended, every company to whom cost auditor submits his or its report .

shall, within a period of thirty 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 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014. It is to be noted that the cost audit report is required to be filed in XBRL format.

Q.2 Discuss the basic elements of an Auditor's Report.

4 Marks

Answer:

The Basic Elements of the Auditors' Report are –

- i. **Title:** The Auditor's Report should have an appropriate title i.e. "Auditor's Report". It should be distinguished from other Reports, e.g. reports of officers of the entity, Board of Directors.
- ii. **Addressee:** The Auditor's Report should be appropriately addressed as required by the circumstances of the engagement and applicable laws and regulations. Ordinarily, the Auditor's Report is addressed to the authority appointing the Auditor.
- iii. **Opening or Introductory Paragraph:** (a) The Auditor's Report should identify the Financial Statements of the entity that have been audited, including the date of and period covered by the Financial Statements (b) The Report should include a Statement that the Financial Statements are the responsibility of the entity's management and a Statement that the responsibility of the Auditor is to express an opinion on the Financial Statements based on the audit.
- iv. **Scope Paragraph:** (a) The Auditor's Report should describe the scope of the audit by stating that the audit was conducted in accordance with standards on auditing generally accepted in India. (b) The Report should include a statement that the audit was planned and performed to obtain reasonable assurance whether the Financial Statements are free of material misstatement. (c) The Auditor's Report should describe the Audit as including examining, on a test basis, evidence to support the amounts and disclosures in Financial Statements, assessing the accounting principles used in the preparation of the Financial Statements, assessing significant estimates made by management, in the preparation of Financial Statements, & evaluating the overall position of Financial Statements. (d) The Report should include a statement by the Auditor that the audit provides a reasonable basis for his opinion.
- V **Opinion Paragraph:** The Opinion paragraph of the Report should indicate the Financial Reporting framework used to prepare the Financial Statements. It should state the Auditor's opinion as to whether the Financial Statements give a true and fair view in accordance with the financial reporting framework and, where appropriate, whether the Financial Statements comply with the statutory requirements.
- Vi . **Date of the Report:** The date of an Auditor's Report is the date on which the Auditor signs the Report expressing an opinion on the Financial Statements. The Auditor should not date the Report earlier than the date on which the Financial Statements are signed or approved by Management.
- vii. **Place of Signature:** The Report should name the specific location, which is ordinarily the city where the Audit Report is signed.
- viii. **Auditor's Signature:** The Report should be signed by the Auditor in his personal name. Where a Firm is appointed as the Auditor, the Report should be signed in the personal name of the Auditor and in the name of the Audit Firm. The Partner / Proprietor signing the Report should mention his ICAI Membership Number.

Q.3 State the advantages of Joint Audit

4 Marks

Answer:

Advantages of Joint Audit:

- Lower Workload
- Timely completeness of work
- Sharing of expertise
- Improve quality of service
- Healthy competition
- Quality of performance

CMA HUSTLERS

Q.1 Write short notes on Treatment of Voluntary Retirement Scheme Payments

3 Marks

Answer:

Treatment of Voluntary Retirement Scheme Payments

- (i) Termination benefits to be paid irrespective of the voluntary retirement scheme i.e. balance in P.F, leave encashment; gratuity etc.
- (ii) Termination benefits which are payable on account of VRS i.e. monetary payment on the basis of years of completed service or for the balance period of service whichever is less and notice pay.

Expert Advisory Committee (EAC) opines in favour of treating the costs (except gratuity which should have been provided for in the respective accounting period) as deferred revenue expenditure since it is construed upon as saving in subsequent periods, on some rational basis over a period, preferably over 3 - 5 year. However, the terminal benefit is, to the extent these are not deferred should be treated as expense in the P/L Account with disclosure.

Q.2 Write short notes on Auditing and Assurance Standards Relating to Audit of Fixed Assets

3 Marks

Auditing and Assurance Standards Relating to Audit of Fixed Assets

1. The term Property, plant and equipment in respect of those entities which are required to comply with the relevant Revised AS refers to such tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

2. An asset can be classified as a PPE or otherwise, depending upon the use to which it is put or intended to be put. For example, assets which are classified as PPE in one type of business may be considered as current assets in another. Similarly, the same asset may be classified differently in an entity at different points of time. The recognition of Property Plant and Equipment should be done as per the principles laid down in the "relevant applicable AS".

Q.3 Write short notes on Objective of Internal Object questionnaire

3 Marks

Answer:

Objective of internal control questionnaire.

This is used to collect information to know about the internal control system and evaluate weakness of therein .

Q.4 Write short notes on Advantages of Buyback of shares

3 Marks

Answer:

Advantages of buy-back of shares:

Buy-back of shares have the following advantages:

- (i) A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital.
- (ii) Free reserves which are utilized for buy-back instead of dividend enhance the value of the company's shares and improve earnings per share.
- (iii) Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax.
- (iv) Buy-back may be used as a weapon to frustrate any hostile take-over of the company by undesirable persons .

Answer:

Borrowing Cost as per AS-16:

Borrowing costs are interests and other costs incurred by an enterprise in connection with the borrowing of funds. The standard is applied in accounting for borrowing costs which include:

- 1. Interest and commitment charges on bank borrowing and other short term borrowings;**
- 2. Amortization of discounts/premium relating to borrowings;**
- 3. Amortization of ancillary cost incurred in connection with arrangement of borrowings;**
- 4. Finance charges for assets acquired under finance lease or other similar arrangement**
- 5. Exchange difference in foreign currency borrowing to the extent it relates to interest element**

CMA HUSTLERS

Q.1

4+2= 6 Marks

As per the present regulations in India, financial statements of companies must strictly adhere to the format prescribed in the relevant legislation for being acceptable to regulators as well as to various stakeholders.

PQR Ltd. registered as a company on 30.06.2018 and commenced operation with effect from 01.04.2019. The authorized capital of the company is 10,00,000 equity shares of Rs.10 each. The paid-up capital of the company is, however, 6,00,000 equity shares of Rs.10 each.

On 10.04.2021, the Board of Directors(BOD) has decided to undertake an expansion programme for which the capital expenditure is estimated at Rs.15,00,000. The BOD has decided to apply for an institutional loan to arrange the funds. The lender however, requires the financial statements of the company to be submitted in prescribed format along with the loan application.

The directors, being novice in this respect, have asked your help as an expert in drafting the financial statements of the company for the financial year 2020-21.

In this respect, the following information is available.

Particulars	Dr. Balances (Rs.)	Cr. Balances (Rs.)
Equity Share Capital: 6,00,000 shares of Rs. 10 each fully paid		60,00,000
12% Bank Loan		4,00,000
Furniture	4,50,000	
Machinery	15,00,000	
Building	25,00,000	
Non-current Investment	4,00,000	
Sales		96,00,000
Sales Return	8,00,000	
Interest Received on Investment		40,000
Interest on Bank Loan	40,000	
Purchase	66,40,000	
Purchase Returns		8,40,000
Opening Stock	4,00,000	
Discount	12,500	
Carriage on Goods Sold	2,78,000	
Rent and Taxes	1,20,000	
Trade Receivables	24,00,000	
Trade Payables		1,60,000
Advertisement	2,40,000	
Bad Debt	20,000	
Salaries	8,01,500	
Audit fees	54,000	
Contribution to P.F.	1,20,000	
Cash at Bank and in hand	2,64,000	
Total	1,70,40,000	1,70,40,000

Additional Information:

- (a) Closing Stock as on 31st March 2021 was Rs. 4,25,000
- (b) Depreciation Rates: Furniture 10%, Machinery 20% and Building 10%
- (c) Outstanding salaries as on 31st march 2021 was Rs. 1,24,500
- (d) Trade receivables include a sum of Rs 50,000 due from Mr. B. Reddy and trade payables include Rs. 30,000 due to him.
- (e) Create a provision for doubtful debt @ 5% on trade receivables.
- (f) Provide for income tax Rs. 1,60,000

On the basis of the above information

- i) You are required to determine the amounts of Employee Benefit Expenses, Finance Cost, Other Expenses and Depreciation the year ended on 31.03.2021 as they should appear in Notes to Accounts
- ii) You are required to determine the Profit after tax for the year ended on 31.03.2021.

Answer: (i)

- | | |
|--------------------------|---------------|
| 1. Employee Benefit Exp. | Rs. 10,46,000 |
| 2. Finance Cost | Rs. 48,000 |
| 3. Other Expenses | Rs. 8,43,000 |
| 4. Total Depreciation | Rs. 5,95,000 |

(ii) Profit after Tax: Rs. 3,73,000

CMA HUSTLERS

Q.2 Mr AKC, partner of AKC & Associates, a newly started firm of Chartered Accountants while conducting the Statutory Audit of Great Foods Ltd (GFL) for the year ended 31.03.2021 has come across the various points as under:-

2+2+2= 6 Marks

(i) GFL has shown in the Accounts, a plot of Land at Cost valued at Rs 200 lakhs, but could not produce any title deeds of the same. GFL Management, however, has shown the vacant plot of Land to Mr AKC, Partner.

Faced with these anomaly, Mr AKC has gone to his friend Mr BKB, a more senior member of the profession and sought his opinion regarding how he should deal with the situation.

What opinion Mr BKB should give to Mr AKC under the circumstance?

(ii) GFL has not provided satisfactory evidence regarding realisability of Debts to the extent of Rs. 80 lakhs. In fact, it has been observed that one of the clients from whom an amount of Rs. 20 lakhs has been shown as Debtor by GFL in the Accounts, has since filed for insolvency. However, the Management of GFL has provided the Auditor with a letter stating that they have understanding with the defaulting client that they would settle the claim of Rs. 20 lakhs in individual capacity, if the situation arises.

Faced with these anomaly, Mr AKC has gone to his friend Mr BKB, a more senior member of the profession and sought his opinion regarding how he should deal with the situation.

What opinion Mr BKB should give to Mr AKC under the circumstance?

(iii) As per GFL Balance Sheet under Audit the Company has negative Net worth and a negative Current Assets Ratio. GFL management has requested AKC & Associates to provide a clean Audit Report as they are negotiating with its Bankers for additional loans

Faced with these anomaly, Mr AKC has gone to his friend Mr BKB, a more senior member of the profession and sought his opinion regarding how he should deal with the situation.

What opinion Mr BKB should give to Mr AKC under the circumstance?

Answer:

Mr BKB's advice to Mr AKC to follow the following lines:

The circumstances are such that AKC and Associates should give a Qualified Audit Report stating as under:

(i) "We are unable to form an opinion about the realisability of an amount of Rs. 200 lakhs, included in Assets under the heading of Freehold Land, as the Company has failed to provide any Title Deed for the same

(ii) There is doubt about realisability of an amount of Rs 20 lakhs included in Debtors under Current Assets"

As regards Para

(iii) Of the Query the Report of Auditor should contain a Note in a separate Paragraph stating about the "Going Concern Concept" of the Company. This needs to be emphasized only and not Qualify the Report, as such.

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INTERMEDIATE EXAMINATION

December 2022

P-12(CAA)
Syllabus 2016

Company Accounts and Audit

Time Allowed: 3 Hours

Full Marks: 100

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

Wherever considered necessary, suitable assumptions may be made and clearly indicated in the answer.

All workings must form part of the relevant Answers.

The Question Paper has two sections, A and B. Both sections are to be answered as per instructions given against each.

Section A (Company Accounts)

Answer Question No. 1 and any three from Question Nos. 2, 3, 4 and 5.

1. (a) Choose the correct alternatives:

1×6=6

- (i) ABC Ltd. forfeited 1000 shares of ₹ 10 each for non-payment of Final Call of ₹ 4 each. After the reissue of these shares ₹ 1,500 were transferred to Capital Reserve. Shares were reissued for
- (A) ₹ 6,000
(B) ₹ 4,500
(C) ₹ 5,500
(D) ₹ 1,500
- (ii) Which of the following is/are sources for issue of Bonus Shares by a Company?
- (A) Free Reserves
(B) Securities Premium Account
(C) Capital Redemption Reserves Account
(D) All of the above
- (iii) A Company may issue Preference Shares for a period exceeding 20 years
- (A) for Petrochemical Industries
(B) for Infrastructure Projects
(C) for Power Sector
(D) None of the above
- (iv) Increase in Bank Overdraft is
- (A) increase in Cash and Cash equivalents
(B) decrease in Cash and Cash equivalents
(C) inflow from Financial activities
(D) outflow from Financial activities

- (v) In case of Electricity Company while calculating depreciation for the purpose of tariff as per Regulation 21, the salvage value of the Assets shall be considered as
- (A) 5%
 - (B) 10%
 - (C) 15%
 - (D) None of the above
- (vi) General Ledger of a Banking Company does not contain which of the following?
- (A) Control Accounts of all Personal Ledger
 - (B) Assets Account
 - (C) Contra Account
 - (D) Balance Sheet

(b) Match the following items in Column A with items shown in Column B : 1×4=4

COLUMN A		COLUMN B	
1	Translation of Financial Statements	A	Sinking Fund
2	Underwriting of Issue of Shares	B	AS 11
3	Guaranteed Residual Value	C	Marked and Unmarked applications
4	Redemption of Debentures	D	AS 19

- (c) State whether the following statements are True or False: 1×4=4
- (i) Rollover must be with the written consent of the Debenture Holders.
 - (ii) Interest Income in case of a financial company is treated as a part of Revenue from Operations.
 - (iii) Balance of Interest accrued on Security Deposit A/c of an Electricity Company should be shown under the head Non-Current Liabilities.
 - (iv) Segment reporting is covered under AS 17.
2. (a) M Ltd., incorporated on April 1, 2021, issued a prospectus inviting applications for 500000 equity shares of ₹ 10 each. The issue was fully underwritten by A, B, C and D as follows:
- A – 200000; B – 150000; C – 100000; and D – 50000.
- The applications were received for 450000 shares of which marked applications were as follows:
- A – 220000; B – 90000; C – 110000; and D – 10000.
- Unmarked applications are apportioned in the ratio of 'Gross Liability'.
Underwriters' commission: 4% of the issue price.
- Required:
- (i) Determine the underwriters' liability in shares;
 - (ii) Determine the underwriters' liability in amount. 4+4=8

- (b) Calculate the amount of borrowing cost to be capitalized as per AS 16 based on the following information:

Particulars	₹
Expenditure incurred till 31.03.2021	5,00,000
Interest cost capitalized for the financial year 2020-21 @ 13%	26,000
Amount borrowed till 31.03.2021	2,00,000
Assets transferred to construction during 2021-22	1,00,000
Cash payment during 2021-22	75,000
Progress payment received	3,50,000
New borrowing during 2021-22 @ 13%	2,00,000

4

3. (a) From the following information prepare Cash Flow Statement :

9

Balance Sheet

as at 31.03.2022 and 31.03.2021

Particulars	Note No.	31.03.2022 (₹)	31.03.2021 (₹)
1 EQUITY AND LIABILITIES			
Shareholder's Funds :			
Share Capital		1,00,000	80,000
Reserve and Surplus	1	6,400	6,000
Non-Current Liabilities			
Long Term Borrowings	2	14,000	12,000
Current Liabilities			
Short term Borrowings	3	13,600	25,000
Trade Payables		31,600	34,000
Short Term Provisions (Provision for Tax)		8,400	6,000
Other Current Liabilities	4	2,000	—
TOTAL		1,76,000	1,63,000
2 ASSETS			
Non-current Assets			
Fixed Assets	5	50,000	60,000
Current Assets			
Inventories		70,000	60,000
Trade Receivables		48,000	40,000
Cash & Cash Equivalent		7,000	2,400
Prepaid Expenses		1,000	600
TOTAL		1,76,000	1,63,000

	₹	₹
	<u>31.03.2022</u>	<u>31.03.2021</u>
Notes:- 1 Reserve & Surplus:		
General Reserve	4,000	4,000
Profit & Loss Balance	2,400	2,000
	<u>6,400</u>	<u>6,000</u>
2 Long Term Borrowings:		
15% Debentures	14,000	12,000
3 Short Term Borrowings:		
Cash Credit	13,600	25,000
4 Other Current Liabilities:		
Dividend payable	2,000	—
5 Fixed Assets	80,000	82,000
Less:- Accumulated Depreciation	30,000	22,000
	<u>50,000</u>	<u>60,000</u>

Additional Information:

- (I) Proposed Dividend 10,600 10,000
- (II) Provision for tax ₹ 9,400
- (III) Fixed assets sold for ₹ 10,000, whose cost was ₹ 20,000 and accumulated depreciation till the date of sale is ₹ 6,000

An Interim Dividend paid during the year ₹ 9,000.

- (b) Calculate rebate on bills discounted as on 31st March, 2022 and pass journal entry. 3

Date of bill	Amount (₹)	Period	Rate of discount
15.1.2022	1,00,000	5 months	9%
10.2.2022	60,000	4 months	8%
25.2.2022	80,000	4 months	8%
20.3.2022	1,20,000	3 months	10%

4. The following is the Trial Balance of X Ltd. as on 31.03.2022.

Particulars	₹	Particulars	₹
Stock in trade on 01.04.21	6,00,000	Purchase returns	80,000
Purchases	19,60,000	Sales	27,20,000
Salaries	2,40,000	Discount received	24,000
Freight, carriage etc.	7,600	Balance of Profit and Loss (Cr.)	1,20,000
Furniture	1,36,000	Share capital (₹ 10)	8,00,000
Contribution to P. F.	40,000	Trade payables	1,96,000
Rent and Rates	32,000	General reserve	1,24,000
Stationary	15,200		
Repairs	16,000		
Insurance	24,000		
Misc. expenses	1,200		
Interim dividend paid	72,000		
Staff welfare expenses	20,000		
Plant and machinery	2,32,000		
Cash at bank	3,69,600		
Patents	38,400		
Trade receivables	2,60,000		
	40,64,000		40,64,000

You are required to prepare Statement of Profit and Loss for the year ending 31st March, 2022 and Balance Sheet as at that date after taking into consideration the following information (Notes to Accounts should form part of your answer):

- Closing stock as at 31.03.2022 is ₹ 7,04,000.
- Make a provision for income tax @40%.
- Depreciate plant and machinery @ 15%, furniture @ 10% and patents @ 5%.
- Outstanding rent ₹ 6,400 and outstanding salaries ₹ 7,200.
- The directors recommended a dividend @15% after transfer to General Reserve ₹ 16,000.
- Provide ₹ 4,080 for doubtful debts.
- The authorized capital of the company is ₹ 16,00,000 divided into 160000 equity shares of ₹ 10 each of which 80000 shares have been issued and fully paid up.

5. Write short notes (*any three*):

4×3=12

- (a) Identification of Reportable Segments as per AS 17
- (b) Issue of shares at a premium
- (c) Valuation Balance Sheet
- (d) Different types of Cash Flows in a Cash Flow Statement

Section B (Audit)

Answer Question No. 6 and any three from Question No. 7, 8, 9 and 10.

6. (a) Choose the correct alternatives:

1×6=6

- (i) Check list contains the instruction to be followed by the
 - (A) Internal Auditor
 - (B) External Auditor
 - (C) Audit Committee
 - (D) Audit Assistants
- (ii) Permanent Audit file contains
 - (A) Copies of Management Letter
 - (B) Audit Programme
 - (C) Analysis of transactions and balances
 - (D) Analysis of Significant ratios and trends
- (iii) Which of the following is not an audit risk?
 - (A) Inherent Risk
 - (B) Detection Risk
 - (C) Control Risk
 - (D) Credit Risk
- (iv) Cost Audit report is submitted to Board of Directors in format
 - (A) CRA 1
 - (B) CRA 2
 - (C) CRA 3
 - (D) CRA 4
- (v) Remuneration of Auditor is covered under following section of Companies Act, 2013:
 - (A) Section 142
 - (B) Section 148
 - (C) Section 139
 - (D) None of the above

(vi) The first Auditor of a Government Company is appointed by CAG within _____ days.

- (A) 15 days
- (B) 30 days
- (C) 45 days
- (D) 60 days

(b) Match the following items in Column A with items in Column B: 1×4=4

	Column A		Column B
1.	Reporting of deposits accepted by the company	A.	Audit Documentation
2.	SA 610	B.	Section 145 of the Companies Act, 2013
3.	Auditor's right to sign the Audit report	C.	Using the work of internal auditor
4.	SA 230	D.	CARO 2020

(c) State whether the following statements are True or False: 1×4=4

- (i) First Auditor of the company is appointed by the Board of Directors within 45 days from the date of first AGM.
- (ii) An Audit Programme is a detailed plan of Auditing.
- (iii) The branch auditor shall prepare report on the accounts of the Branch examined by him and send it to Audit Committee .
- (iv) Maintenance of Cost Accounting Standards is mandatory as per Sec 143 of the Companies Act, 2013.

7. (a) State the contents of an Audit Engagement Letter. 6

(b) Discuss an auditor's duty in relation to the internal check system of the client organization. 6

8. (a) Explain briefly the need for audit evidence. 6

(b) State briefly the significance of scope paragraph in Audit Report. 6

9. (a) Discuss – 'Cost Audit Report'. 5

(b) Discuss the features of a Qualified Report. 7

10. Write short notes (*any three*): 4×3=12

(a) Responsibility of Joint Auditors

(b) Features of inventory having impact on related audit procedure

(c) Auditor's duty regarding audit of income and expenditure of a co-operative society

(d) Auditor's duty regarding the audit of issue of bonus shares

SUGGESTED ANSWERS TO QUESTIONS

Section – A

Answer Question no 1 and any three out of Question No 2, 3, 4, 5

1. (a)

1X6 = 6 Marks

Choose the correct alternatives:-

- (i) (C)
- (ii) (D)
- (iii) (B)
- (iv) (C)
- (v) (B)
- (vi) (D)

1. (b)

1X4 =4 Marks

- 1. (B)
- 2. (C)
- 3. (D)
- 4. (A)

1. (c)

1X4 = 4 Marks

- (i) TRUE.
- (ii) TRUE.
- (iii) TRUE.
- (iv) TRUE.

2. (a)

4+4 =8 Marks

(i) Liability in shares :

- A - Nil
- B - 22,500
- C - Nil
- D - 27,500

(ii) Liability in amount (Rs.) :

- A - (80,000)
- B - 1,65,000
- C - (40,000)
- D - 2,55,000

2. (b)

4 Marks

Borrowing cost to be capitalized = ` 42,845

3. (a)

9 Marks

CASH FLOW STATEMENT
For the year ended 31st March 2022

	Rs
NET CASH FROM OPERATING ACTIVITIES	20,800
NET CASH USED IN INVESTING ACTIVITIES	(8,000)
NET CASH USED IN FINANCIAL ACTIVITIES	(8,200)
Net increase in Cash & Cash equivalents	4,600
Add: Cash and Cash Equivalents in the beginning of the period	2,400
Cash and Cash Equivalents at the end of the Period	7,000

3. (b)

3 Marks

Rebate on Bills Discounted = ` 7243.29

Journal Entry:

Interest and Discount A/c.....Dr. ` 7243.29
To Rebate on Bills Discounted A/c ` 7243.29

4.

12 Marks

X Ltd.

Balance Sheet as on 31st March, 2022

Particulars	As on 31.3.22
EQUITY AND LIABILITIES	
Shareholders' funds :	1274400
Current liabilities :	411200
Total	1685600
ASSETS	
Non-current assets :	356080
Current assets :	1329520
Total	1685600

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

Particulars	31.3.22
Total revenue (A)	2744000
Total expenses (B)	2240000
Profit before tax (A ~B)	504000
Less: Provision for taxation @ 40%	201600
Profit after tax	302400

Write Short notes any THREE

5. (a)

4X3 =12 Marks

A business segment or geographical segment should be identified as a reportable segment if:

- a) its revenue from sales to external customers and from transactions with other segments is 10 per cent or more of the total revenue, external and internal, of all segments; or
- b) its segment result, whether profit or loss, is 10 per cent or more of -
 - (i) The combined result of all segments in profit, or
 - (ii) The combined result of all segments in loss, whichever is greater in absolute amount; or
- c) Its segment assets are 10 per cent or more of the total assets of all segments.

A business segment or a geographical segment which is not a reportable segment may be designated as a reportable segment despite its size at the discretion of the management of the enterprise. If that segment is not designated as a reportable segment, it should be included as an unallocated reconciling item.

If total external revenue attributable to reportable segments constitutes less than 75 per cent of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 per cent, until at least 75 per cent of total enterprise revenue is included in reportable segments.

5. (b)

A company may issue shares at a premium, i.e., at a value greater than its face value. The power to issue shares at a premium need not be given in the Articles of Association. Premium so received shall be credited to a separate account called Securities Premium Account.

Section 52 of the Companies Act, 2013 gives the purposes for which share premium account may be applied by the company. These are:

- 1 For the issue of fully paid bonus shares to the members of the company;
- 2 For writing off preliminary expenses of the company;
- 3 For writing off the expenses of the commission paid or discount allowed on any issue of shares or debentures of the company; and
- 4 For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.
- 5 For the purchase of its own shares or other securities u/s 68.

5. (c)

The balance in the life assurance fund cannot be taken as the profit made by the life insurance business. For the purpose of ascertaining the profit, the insurance company should calculate its net liability on all outstanding policies. This calculation is done by experts called actuaries and is a highly complicated mathematical process. Prior to nationalization, insurance companies were having this computation once in three years. Since nationalization,

L.I.C. is having such valuation once every two years. For calculating net liability, the actuaries calculate the present value of future liability on all the policies in force as well as present value of future premium to be received on policies in force. The excess of the present value of future liability over the present value on future premium is called the net liability.

It is by comparing the life insurance fund and net liability in respect of policies, that profit in respect of life insurance business can be ascertained. If the life insurance fund is more than the net liability, the difference represents the profit. On the other hand, the excess of net liability over the life assurance fund represents the loss for the inter-valuation period.

According to Section 28 of the Life Insurance Corporation Act, 1956, 95% of the profit of life business must be distributed to the policyholders by way of "Bonus" on with-profit policies and the remaining 5% has to be utilized for such purposes as the Government may determine. The profit or loss of life insurance business is ascertained by preparing a statement called „Valuation Balance Sheet“ which is reproduced below.

Valuation Balance Sheet as on

To Net liability as per actuary's valuation	By Life Assurance Fund as per Balance Sheet
To Surplus (Net Profit)	Deficiency (Net loss)

5. (d)

Cash Flow Statement explains cash movements under three different heads, namely

- 1 Cash flow from operating activities;
- 2 Cash flow from investing activities;
- 3 Cash flow from financing activities.

Sum of these three types of cash flow reflects net increase or decrease of cash and cash equivalents. Operating activities are the principal revenue - producing activities of the enterprise and other activities that are not investing and financing. Operating activities include all transactions that are not defined as investing or financing. Operating activities generally involve producing and delivering goods and providing services.

Investment activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the owners' capital (including preference share capital in the case of a company) and borrowings of the enterprise.

SECTION – B

Answer Question no 6 and any three out of Question No 7, 8, 9, 10

6. (a)

1X6 = 6 Marks

Choose the correct alternatives:-

- (i) (D)
- (ii) (D)
- (iii) (D)
- (iv) (C)
- (v) (A)
- (vi) (D)

6. (b)

1X4 =4 Marks

- 1 D
- 2 C
- 3 B
- 4 A

6. (c)

1X4 =4 Marks

- i) FALSE.
- ii) TRUE.
- iii) FALSE.
- iv) FALSE.

[Answer any THREE from Question Nos. 7 to 10]

7. (a)

6 Marks

Although the form and content of the engagement letter differs from client to client but in general, the following references should be made in audit engagement letter:

- (i) The objective and the scope of the engagement.
- (ii) Management's responsibility for the financial statements.
- (iii) The existence of inherent limitations of audit and resulting material misstatements that may remain undiscovered,
- (iv) The need for use of services of internal auditors and/ or other experts that may arise during the course of the engagement.
- (v) The requirement of management confirmation letter as regards representations made by them concerning audit.
- (vi) Restriction of the auditor's liability, if any.
- (vii) Basis for computation of audit fees and billing arrangements.
- (viii) The form of reports or other communication of results of the engagement.
- (ix) Validity of report
- (x) Limits on submission of report to other authorities

7. (b)

6 Marks

In the case of a big concern where there is a good internal check system the auditor may, to a great extent, presume the accuracy of the accounting. But he must not be negligent. He should apply a few test checks, i.e., he should check a few transactions here and there at random or check fully the accounts for a few months, and carry out a thorough check of the whole of a certain class of transactions taking place during that particular period, e.g., cash sales, or cash received or credit purchases during that period. In selecting certain transactions are representative and true specimens the auditor should see that such sample transactions are representative and true specimens of such entries throughout the year.

If he finds that there is no mistake and there is nothing to arouse his suspicion, he may presume that the accounts are correct. It must be remembered that in such a case, the auditor is not relieved of his responsibility. Therefore, it would be better for him to probe the matter thoroughly if there is the slightest suspicion. If later on, it is found that a fraud had been committed which the auditor failed to detect as he had not checked all the transactions, he would be held liable. The existence of a good internal check system reduces to a great extent the work of the auditor but does not reduce his liability. To what extent an auditor should depend upon the internal check system will depend upon his tact, skill, experience and judgment.

Need for Audit Evidence

Audit evidence provides the auditor a reasonable assurance in respect of the assertions made by the management. While obtaining evidence through substantive procedures, the different assertions made by the management can be as follows:

- (a) Existence - that an asset or a liability exists at a given date;
- (b) Rights and Obligations - that an asset is a right of the entity and a liability is an obligation of the entity at a given date;
- (c) Occurrence - that a transaction or event took place which pertains to the entity during the relevant period;
- (d) Valuation - that an asset or liability is recorded at an appropriate carrying value;
- (e) Measurement - that a transaction is recorded in the proper amount and revenue or expense is allocated to the proper period;
- (f) Presentation and Disclosure - an item is disclosed, classified and described in accordance with recognized accounting policies and practices and relevant statutory requirements, if any.

While obtaining evidence through compliance procedures, the different assertions made by the management can be as follows:

- (i) Existence - that the internal controls exist;
- (ii) Effectiveness - that the internal controls are operating effectively;
- (iii) Continuity - that the internal controls have been so operated throughout the period of intended reliance.

Significance of Scope Paragraph:

- a) The Scope Paragraph seeks to inform the Users about the practices and procedures followed in the conduct of audit by the Auditor.
- b) In the Scope Paragraph, the Auditor states that the audit was planned and performed in accordance with Auditing Standards generally accepted in India, and also that the audit provides a reasonable basis for his opinion.
- c) The significance of the Scope Paragraph lies in the fact that the Auditor intends to convey to the readers of his report, about the scope of audit by highlighting the nature and progress of audit. The test check approach of audit adopted by the Auditor in performing his audit work as also the significant aspect of evaluation of accounting principles and accounting estimates is also clarified.
- d) The basic objective of auditing that the Auditor provides only "reasonable assurance" is emphasized in the Scope Paragraph. Thus, this paragraph signifies the inherent limitations of audit.

Cost Audit Report-

As per sub-rule (4) of Rule 6 of the companies (Cost Records and Audit) Rules 2014 as amended, a Cost Auditor is required to submit the Cost Audit Report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA -3 to Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates.

Form for filling Cost Audit Report with the Central Government

As per sub-rule (6) of Rule 6 of the companies (Cost Records and Audit) Rules 2014 as amended, every company to whom cost auditor submits his or its report shall, within a period thirty 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 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.

It is to be noted that the cost audit report is required to be filed in XBRL format.

9. (b)

A Qualified Audit Report is one where an Auditor gives an opinion on the truth and fairness of Financial Statements, subject to certain reservations.

The Auditor's Reservation is generally stated as: "Subject to the above, we report that the Balance Sheet shows a true and fair view."

The features of a Qualified Report are –

Clarity: The Auditor must express the nature of qualification, in a clear and unambiguous manner.

Explanation: Where the Auditor answers any of the statutory affirmations in the negative or with a qualification, his Report shall state the reasons for such answer. **Placement:** All qualifications should be contained in the Auditor's Report. When there are Notes, which are subject matter of a qualification, the same should preferably be annexed to the Auditor's Report. However, a reference to the Notes to Accounts in the Auditor's Report does not automatically become a qualification.

Subject to: The words "subject to" are essential to state any qualification. The qualification should be preceded by words such as "Subject to" or "Except that" to make it clear that he is making an exception.

Nature of Qualification: Vague statements, the effect of which on accounts cannot be ascertained, like, „the debtors balances are subject to confirmation“, „no provision for taxation has been made in view of the loss during the year“, etc. should be avoided.

Violation of Law: Where the Company has committed an irregularity resulting in a breach of law, the Auditor should bring the same to the notice of the shareholders by properly qualifying his report.

Quantification: The Auditors should quantify, wherever possible, the effect of these qualifications on the Financial Statements if the same is material. Where the effect of qualification cannot be accurately quantified, the Auditor may reflect the effect on the basis of Management estimates, after carrying out necessary audit tests on such estimates.

10. (a)

4X3 = 12 Marks

In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him. On the other hand, all the joint auditors are jointly and severally responsible:

- (i) In respect of the audit work which is not divided among the joint auditors and is carried out by all of them; in respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors. It may, however, be clarified that all the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the nature,
 - (ii) timing or extent of the audit procedures agreed upon among them; proper execution of these audit procedures is the separate and specific responsibility of the joint auditor concerned;
 - (iii) in respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
 - (iv) for examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute; and
 - (v) For ensuring that the audit report complies with the requirements of the relevant statute.

10. (b)

The following features of inventories have an impact on the related audit procedures:

- (i) By their very nature, inventories normally turn over rapidly.
- (ii) Inventories are susceptible to obsolescence and spoilage. Further, some of the items of inventory may be slow-moving while others may follow a seasonal pattern of movement.
- (iii) Inventories are normally movable in nature, although there may be some instances of immovable inventories also, e.g., in the case of an entity dealing in real-estate.
- (iv) All the items of inventory may not be located at one place but may be held at different locations such as factories and warehouses, or with third parties such as selling agents.
- (v) The individual items of inventory may not be significant in value, but taken together, they normally constitute a significant proportion of total assets and current assets of manufacturing, trading and certain service entities.
- (vi) Physical condition (e.g., stage of completion of work-in-process in certain industries) and existence of certain items of inventories may be difficult to determine.
- (vii) Valuation of inventories may involve varying degrees of estimation, including expert opinions, e.g., in the case of jewellery

10. (c)

Audit of income:

The auditor should carefully vouch the receipt of cash. Cash receipts on account of share capital should be vouched with the Register of Members. Cash received against sales should be vouched with the cash memos and invoices issued to customers as also Sales Account. Receipt of cash in respect of payment of interest and repayment of loans advanced by the society should be vouched with the loan agreements. Cash received from members towards construction of houses or their maintenance, should be vouched with the Register of Members, demands made by the society from time to time, and money receipts.

Audit of Expenditure:

- (i) The auditor should vouch all expenditure with reference to authorisation from the Managing Committee, particularly in the case of large capital expenditure, as also the bills received from individual parties, the money receipts obtained from them, and entries in the Bank Pass Book along with counter-foils of cheques.
- (ii) He should vouch the payment of loans from the loan agreements entered into with borrower members.
- (iii) 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.

10. (d)

The duties of the auditor are as follows:

- (i) Confirm that issue of Bonus Share was authorized by articles.
 - (ii) Verify the minutes of the Board meeting and ordinary resolution passed in the general meeting in which the approval of members is obtained.
 - (iii) Check that the company has issue fully paid-up bonus shares to its members only.
 - (iv) Confirm that the issue of bonus shares shall not be made by capitalising reserves created by the revaluation of assets.
 - (v) Check whether the company has made any default in payment of interest or principal in respect of fixed deposits or debt securities issued by it.
 - (vi) Check whether the company has made any default in payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus.
 - (vii) Whether the partly paid-up shares are made fully paid-up.
 - (viii) Check whether the bonus shares shall not be issued in lieu of dividend.
-

INTERMEDIATE EXAMINATION

June 2023

P-10(CAA)

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.

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

Section-A

(Corporate Accounting)

Answer Question No.1 and any three from Question Nos. 2, 3, 4 and 5.

1. (a) Choose the correct alternative:

1×6=6

- (i) Net profit for the year ended 31.03.2022 ₹ 15,000, interest received in advance on 1st January, 2022 ₹ 2,000 and 31st December, 2022 ₹ 3,000. Cash from operations will be _____.
- (A) ₹ 16,000
(B) ₹ 22,000
(C) ₹ 13,000
(D) ₹ 15,000
- (ii) As per Schedule III of Companies Act, 2013, while preparing the financial statements in case of a Finance Company, interest received from borrowers should be shown under _____.
- (A) revenue from Operation
(B) other Income
(C) current assets
(D) non-current assets
- (iii) Which of the following is a principle of insurance?
- (A) Principle of indemnity
(B) Insurable interest
(C) Principle of uberrimae fidei
(D) All of the above

- (iv) A banking company is required to maintain _____ % provision on unsecured portion of doubtful advances.
- (A) 25
(B) 40
(C) 50
(D) 100
- (v) Balance of Interest Accrued on Security Deposit A/c of an electricity company should be shown under _____.
- (A) Current Liability
(B) Non-current Liability
(C) Current Assets
(D) Non-current Assets
- (vi) Which of the following is not a condition of Buy-back of securities/shares?
- (A) Both fully and partly paid-up securities can be bought back.
(B) Buy-back must be authorised by the articles of association.
(C) Buy-back must be authorised by passing a special resolution in general meeting.
(D) Buy-back should be completed within 1 year from the state of passing of special resolution.

(b) **State whether the following statements are True or False:** 1×4=4

- (i) In case of an underwriting arrangement, 'Unmarked' applications are those applications which bear the stamp of an underwriter.
- (ii) Payment of income tax is classified under cash flow from financing activity.
- (iii) Provisions shall be recognized as an expense in Profit and Loss Statement.
- (iv) Ind AS 33 deals with earning per share.

(c) **Fill in the blanks:** 1×4=4

- (i) Where a share is issued at a value greater than its face value, it is said to be issued at a _____.
- (ii) Stock-in-Trade (in respect of goods acquired for Trading) are classified as _____.
- (iii) Contingent liabilities do not have any _____ obligation.
- (iv) Bonus paid at the end along with the policy amount to the policy holders is called _____.

2. (a) M Ltd, incorporated on April 1, 2021, Issued a prospectus inviting application for 2,50,000 equity shares of ₹ 10 each. The issue was fully underwritten by A, B, C and D as follows:

A - 1,00,000, B - 75,000, C - 50,000 and D - 25,000

The applications were received for 2,25,000 shares of which marked applications were as follows:

A - 1,10,000, B - 45,000, C - 55,000 and D - 5,000

Unmarked applications are apportioned in the ratio of "Gross Liability".

You are required to determine the underwriters' liability in shares.

4

- (b) Books of N. Limited show the following balances on 31st December, 2022:

	₹
15,000 present equity shares of ₹ 10 each fully paid	1,50,000
2,500 10% Redeemable preference shares of ₹ 100 each fully paid	2,50,000
500 8% Redeemable preference shares of ₹ 100 each, ₹ 70 paid up	35,000
General Reserve	75,000
Profit and Loss Account	1,60,000
Securities Premium	15,000
Investment	1,20,000
Cash at Bank	39,600

On 1st January, 2023, the Board of Directors decided to redeem the preference shares at a premium of 8%. In order to pay to the preference shareholders, the company also decided to sell the investments and use company's funds and to raise the balance by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 1 per share, subject to leaving a minimum bank balance of ₹ 9,600 after such redemption. Investments were sold at ₹ 1,08,000.

Show the necessary Journal entries to record the transactions.

8

3. (a) On the basis of the following information provided by ABC Limited prepare a Cash Flow Statement for the year ended 31st March, 2023.

- Company sold all the goods for cash only and purchased the goods on credit only.
- The company earned a Gross Profit of ₹ 4,00,000 with a Gross Profit Ratio of 25%.
- The closing inventory was higher than the opening inventory by ₹ 20,000.
- The company paid ₹ 4,50,000 as wages and ₹ 90,000 as office expenses during the year.

- (v) Balance of suppliers accounts on 31.3.22 were higher than the balance on 31.3.23 by ₹ 30,000.
- (vi) Tax paid by the company amounts to ₹ 80,000 while provision for taxation was ₹ 70,000.
- (vii) The company repaid bank loan of ₹ 1,75,000 which included interest of ₹ 15,000.
- (viii) Dividend paid during the year ₹ 50,000.
- (ix) The company sold investments of ₹ 6,00,000 at a profit of ₹ 40,000.
- (x) Depreciation charged on fixed assets ₹ 1,20,000.
- (xi) Furniture purchased during the year ₹ 2,00,000.
- (xii) Cash and Cash Equivalents as on 31.3.22 was ₹ 1,00,000.
- (xiii) Cash and Cash Equivalents as on 31.3.23 was ₹ 4,95,000. 8

- (b) Given below are the details of interest on advance of a Commercial Bank as on 31.3.2023:

(₹ in Crore)

Particulars	Interest Earned	Interest Actually Received
Performing Assets		
Term Loan	240	160
Cash Credit and Overdraft	1,500	1,240
Bills Purchased and Discounted	300	300
Non-Performing Assets		
Term Loan	150	10
Cash Credit and Overdraft	300	24
Bills Purchased and Discounted	200	40

Find out the income to be recognized for the year ended 31st March, 2023. 4

4. From the following particulars furnished by N M Ltd., prepare the Balance Sheet as on 31st March, 2023 as required by Part I, Schedule III of the Companies Act, 2013: 12

(As at 31-3-2023)

Particulars	Debit (₹)	Credit (₹)
Equity Share Capital (Face value of ₹ 100 each)		50,00,000
Building	27,50,000	
Plant & Machinery	26,25,000	
Furniture	2,50,000	
General Reserve		10,50,000
Loan from State Financial Corporation		7,50,000

Particulars		Debit (₹)	Credit (₹)
Inventory:			
Raw Materials	2,55,000		
Finished Goods	<u>10,00,000</u>	12,55,000	
Provision for Taxation			6,40,000
Trade Receivables		10,00,000	
Short Term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			10,00,000
Total		94,78,500	94,78,500

The following additional information is also provided:

- (i) 10,000 Equity shares were issued for consideration other than cash.
 - (ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.
 - (iii) The cost of the assets were:
Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500
 - (iv) The Balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is secured by hypothecation of Plant & Machinery.
 - (v) Balance of Bank includes ₹ 10,000 with Galaxy Bank Ltd. which is not a Scheduled Bank.
 - (vi) Transfer ₹ 20,000 to general reserve as proposed by Board of Directors.
5. (a) The following information applies to a company's defined benefit pension plan for the year:
Fair Market Value (FMV) of plan assets (beginning of the year): ₹ 2,80,000
Fair Market Value (FMV) of plan assets (end of the year): ₹ 3,90,000
Employer's contribution : ₹ 85,000
Benefit paid: ₹ 70,000
Calculate the actual return on plan assets. 4
- (b) The life insurance fund of PQR Life Insurance Co. Ltd. was ₹ 34,00,000 on 31st March, 2023. Its actuarial valuation on 31st March, 2023 disclosed a net liability of ₹ 28,80,000. An interim bonus of ₹ 40,000 was paid to the policy holders during the previous two years. It is now proposed to carry forward ₹ 1,10,000 and to divide the balance between the policy holders and the shareholders. Show
- (i) The Valuation Balance Sheet.
 - (ii) The Net Profit for the two-year period, and
 - (iii) The Distribution of the Profits. 8

Section – B
(Auditing)

Answer Question No.6 and *any three* from Question Nos. 7, 8, 9 and 10.

6. (a) Choose the correct answer from the four alternatives given: 1×6=6
- (i) Internal Audit is mandatory for every unlisted public company having paid up share capital of _____ during the preceding financial year.
- (A) ₹ 100 crores
(B) ₹ 50 crores
(C) ₹ 500 crores
(D) ₹ 200 crores
- (ii) A cost auditor submits his report along with the reservations and observations in Form No. _____.
- (A) CRA 1
(B) CRA 2
(C) CRA 3
(D) CRA 4
- (iii) Any casual vacancy in a government company is filled by the CAG of India within _____ days.
- (A) 15
(B) 30
(C) 45
(D) 60
- (iv) Audit Procedures to obtain audit evidences include _____.
- (A) Compliance Procedure
(B) Substantive Procedure
(C) Both of (A) and (B)
(D) Neither (A) nor (B)
- (v) Each qualified chartered accountant not in full time employment can be the auditor of at most _____ companies.
- (A) 10
(B) 15
(C) 20
(D) 30

(vi) Which of the following is not a part of rural self-governance system in India?

- (A) Gram Panchayat
- (B) Gram Parishad
- (C) Panchayat Samiti
- (D) Zilla Parishad

(b) **State whether the following statements are True or False:** 1×4=4

- (i) Casual vacancy in the office of Cost Auditor is filled by Board of Directors.
- (ii) Application for removal of a Company Auditor before the expiry of his term is to be made to the Central Government in Form No. ADT- 1.
- (iii) An Audit engagement is the initial stage of an audit during which the auditor notifies the client that he has accepted the audit work.
- (iv) Analytical procedure includes trend analysis.

(c) **Fill in the blanks:** 1×4=4

- (i) Cost Records are to be maintained as per Form _____.
- (ii) The auditor of a banking company is to be appointed by the _____.
- (iii) According to the Central Co-operatives Societies Act, _____ % 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.
- (iv) Cut off procedures are generally applied to _____ transactions.

7. (a) List the principles governing an audit. 6

(b) What are analytical procedures of Audit? Discuss the tools and techniques of analytical procedures. 6

8. (a) Discuss the manner in which rotation of auditors may be done by the company on expiry of their term. 6

(b) V. Limited is an unlisted company with an Authorised Capital of ₹ 100 crore. The issued and paid-up capital of the company is ₹ 45 crore. During the financial year 2022-23, the company has been able to achieve a turnover of ₹ 225 crore. The company has taken a Bank loan of ₹ 110 crore in the current financial year for business expansion. As the Company Secretary of V. Limited give your opinion/ advice, as a legal expert, on whether the company is required to conduct a secretarial audit. 6

9. (a) Discuss the duties of an Auditor in relation to the audit of debentures. 8

(b) State the circumstances that may lead to submission of a report other than an Unqualified Report by an auditor. 4

10. (a) How will you conduct the audit of a hospital? 4
- (b) B Mart Ltd. is a multi-brand retailer and operates in multiple locations across the nation. It sells products of thousands of categories from food to consumer durables. Each individual product item has a price tag with barcode. In addition, there is another security tag which is removed only after the billing is done. Inventory records are physically verified on a fortnightly basis by the auditor of B Mart. Identify the risks associated with the audit of inventory in B Mart. 8

SUGGESTED ANSWERS TO QUESTIONS

SECTION-A

1. (a)

- (i) (A)
- (ii) (A)
- (iii) (D)
- (iv) (D)
- (v) (B)
- (vi) (A)

1. (b)

- (i) False
- (ii) False
- (iii) True
- (iv) True

1. (c)

- (i) Premium
- (ii) Inventories
- (iii) Present
- (iv) Reversionary Bonus

2. (a)

Particulars	A	B	C	D
Net Liabilities	0	11,250	0	13,750

2. (b)

Journal of N. Limited:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being raising of funds through issue of equity shares)		1,32,000	1,20,000 12,000
2	Bank A/c Dr. Profit and Loss A/c Dr. To Investment A/c (Being Sale of Investment at a loss)		1,08,000 12,000	1,20,000
3	14% Preference Share Capital A/c Dr. Premium on Redemption A/c Dr. To Preference Shareholders A/c (Being Redemption of Pref. shares at premium)		2,50,000 20,000	2,70,000
4	Securities Premium A/c Dr. To Premium on Redemption A/c (Being Premium on redemption met out of Security Premium)		20,000	20,000
5	General Reserve A/c Dr. Profit and Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred to CRR A/c)		75,000 55,000	1,30,000

6	Preference Shareholders A/c	Dr.	2,70,000	
	To Bank A/c (Being Redemption amount paid to Preference Shareholders)			2,70,000

3. (a)

Cash Flow Statement for the year ended 31st March, 2023:

Particulars	Rs.
A. Cash Flow from Operating Activities:	1,80,000
B: Cash Flow from Investing Activities:	4,40,000
C: Cash Flow from Financing Activities:	(2,25,000)
Cash Flow during the year (A+ B+C)	3,95,000
Add: Opening Balance of Cash & Cash Equivalents	1,00,000
Closing balance of Cash & Cash Equivalents	4,95,000

3. (b)

Income to be Recognised D 2,114 (Rs. in Crore)

4.

Balance Sheet Total C 94,78,500

5. (a)

Actual return on plan assets C 95,000

5. (b)

(i) In the Books of Prakash Life Insurance Co. Ltd.

Valuation Balance Sheet as on 31st March, 2023

Liabilities	₹	Assets	₹
Net Liability	28,80,000	Life Assurance Fund	34,00,000
Net Profit	5,20,000		
	34,00,000		34,00,000

(ii) & (iii)

	₹
Net Profit for the Two Years Period	5,60,000
Distribution of the Profits:	
Net Profit	5,60,000
Less: Amount proposed to be carried forward	1,10,000
Balance	4,50,000
Share of policyholders	4,27,500
Less: Interim bonus paid	40,000
Amount due to policy holders	3,87,500
Share of Shareholders	22,500

SECTION B

6. (a)

- (i) (B)
- (ii) (C)
- (iii) (B)
- (iv) (C)
- (v) (C)
- (vi) (B)

6. (b)

- (i) True
- (ii) False
- (iii) True
- (iv) True

6. (c)

- (i) CRA-1
- (ii) shareholders
- (iii) 25%
- (iv) trading

7. (a)

The basic principles governing an Audit are stated below:

- (i) Integrity, Objectivity and Independence: The auditor has to be straightforward, fair, impartial, honest and sincere in his approach to professional work.
- (ii) Confidentiality: The auditor should uphold the privacy of the information and should not disclose any such information to a third party, including the employees of the entity, without the explicit authority of the management or client or unless there is a lawful or a professional responsibility to do so.
- (iii) Professional Care, Skill and Competence: The auditor should exercise due professional care, competence and diligence expected of him while carrying out the audit work.
- (iv) Responsibility of Work Performed by Others: The auditor should carefully direct, oversee and review the work delegated to staff. Likewise, the auditor may also use the work done by other auditors or experts.
- (v) Documentation: The auditor should document matters, which are essential in providing evidence that the audit was carried out in accordance with the standards.
- (vi) Planning: The auditor should plan his work in such a way as to enable him to conduct an audit in a timely and efficient manner. The audit plan should be based on the knowledge of the business of the entity. The plan should be continuously reviewed and modifications should be incorporated if required.
- (vii) Audit Evidence: The auditor should get hold of enough suitable evidence to enable him to draw reasonable conclusions there from.
- (viii) Accounting System and Internal Control: The auditor should have an understanding of the internal control and risk management framework established by the management. He has to judge the adequacy of such framework as well.
- (ix) Audit Conclusions and Audit Report: The auditor should review and measure the conclusions drawn from the audit evidence obtained, as the basis for his findings contained in his report. Nevertheless, in case the auditor comes across any actual or suspected fraud, it would be more apt for him to bring the same instantaneously to the notice of the management

7. (b)

According to SA-520, Analytical Procedure means evaluation of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedure also encompasses such investigation, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Tools and Techniques of Analytical Procedures

As per SA-520, analytical procedures include application of the following tools and techniques:

- a. Trend Analysis: Under this method, analysis is done for to assess fluctuation of the amount of any item over the year or years.
- b. Testing of Reasonableness: This is done by comparing certain items or account balances with other accounts or balances. Some examples are as follows;
 - (i) Raw material consumption to production (quantity)
 - (ii) Percentage of wastage and scrap against production and raw material consumption
 - (iii) Work-in-progress based on material issued
- c. Ratio Analysis: This technique calculates different ratios between various items of financial statements in order to study their relationships. Some common ratios include:
 - (i) Gross Profit Ratio
 - (ii) Receivable Turnover Ratio
 - (iii) Inventory Turnover Ratio
- d. Sources of Information: Analytical procedures also require analysing the following sources of information.
 - (i) Interim financial information
 - (ii) Budgets
 - (iii) Management Accounts
 - (iv) Non-financial information, etc.

8. (a)

Manner of rotation of Auditors by the Companies on Expiry of Their Term As per Section 139(4), the Central Government may, by rules, prescribe the manner in which the companies shall rotate their auditors in pursuance of Section 139(2). Accordingly, the Central Government has prescribed the following provisions under Rule 6 of the Company (Audit and Auditor) Rules 2014.

- i. Where a company is required to constitute an Audit Committee u/s 177 of the Act, the Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm whomayre place the incumbent auditor on expiry of the term of such incumbent.
- ii. Where a company is not required to constitute an Audit Committee u/s 177 of the Act, the Board shall consider the matter of rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.

For the purpose of the rotation of auditors–

- (i) The period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken in to account for calculating the period of five consecutive years or ten consecutive years, as the case may be;
- (ii) The incoming auditor or audit firm shall not be eligible if such auditor or audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

The term “same network” shall include the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

For the purpose of rotation,

- (i) A break in the term for a continuous period of five years shall be considered as fulfilling the requirement of rotation;
- (ii) If a partner, who is in-charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.

8. (b)

As per the provision of Section 204(1) of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014:

Every listed company;

Every public company having a paid-up share capital of 50 crore rupees or more; or

Every public company having a turnover of 250 crore rupees or more; or

Every company having outstanding loans or borrowings from banks or public financial institutions of Rs.100 crore rupees or more.

In the given case, the company is an unlisted public company with paid up capital of Rs. 45 crore (less than Rs. 50 crore) and its turnover of Rs. 225 crore is also lower than the threshold of Rs. 250 crore. However, the company has an outstanding bank loan of Rs.110 crore which is higher than the threshold of Rs. 100 crore. Thus, the company will need to conduct secretarial audit.

9. (a)

The duties of an auditor in relation to the audit of debentures are discussed below:

- (i) The auditor should verify that the prospectus had been duly filed with the registrar before the date of allotment of debentures.
- (ii) He should check the amount collected in the cash book with the counterfoils of receipts issued to the applicants and also cross check the amount into the application and allotment book.
- (iii) He should examine the debenture trust deed and note the conditions contained therein as to issue and repayment.
- (iv) If the debentures are covered by a mortgage or a charge, it should be verified that the charge has been correctly recorded in the register of mortgage and charges and it has also been registered with the registrar of the companies.
- (v) Compliance with SEBI guidelines should also be ensured.
- (vi) Where debentures have been issued as fully paid up to vendors as a part of the purchase consideration, the contract in this regard should be checked

9. (b)

An Auditor may not be able to express an Unqualified Opinion when any of the following circumstances exist and in the auditor’s judgement, the effect of the matter is or may be material to the Financial Statements.

[SA 700].

- i. **Limitation on Scope:** Limitation on scope of Auditor’s work may be imposed by the clients or imposed by circumstances. It may lead to situations where the Auditor may have to issue a Qualified Opinion or a Disclaimer of Opinion.
- ii. **Disagreement with management:** The Auditor may disagree with the Management as to

- (a) The acceptability of the accounting policies selected, or the method of their application,
- (b) The adequacy of disclosure in the Financial Statements, or (c) the compliance of the Financial Statements with relevant regulations and statutory requirements. In such cases, he may have to give an Adverse Opinion or a Qualified Opinion.
- iii. Significant Uncertainty: If there is a significant uncertainty affecting the Financial Statements (other than Going Concern problem), for example, litigation involving legal claims, etc. the result of which is dependent upon the resolution of the future events, the Auditor may have to qualify his opinion or disclaim an opinion.

However, where such significant uncertainty is not material, the Auditor may issue an Unqualified Opinion, by adding an “Emphasis of Matter” paragraph, without qualifying his opinion.

10. (a)

- (i) Check the letter of appointment to ascertain the scope of responsibilities.
- (ii) Study the Charter or Trust Deed under which the hospital has been set up and take a special note of the provisions affecting the accounts.
- (iii) Examine, evaluate and verify the system of internal check, internal control and determine the nature, timing and the extent of the audit procedures.
- (iv) Vouch the entries in the Patient’s Bill Register with a copies of bill issued. Test check the selected bills to see that these have been correctly prepared taking into consideration the period of stay of each patient as recorded in the Attendance Schedule.
- (v) Vouch the collection from patients with copies of bills and entries in Bills Register. Arrears of dues should be properly carried forward and where these are deemed to be irrecoverable, they should be written off under due authorizations.
- (vi) Interest and/ or dividend income should be vouched with reference to the Investment Register and Interest and Dividend warrants.
- (vii) In case of legacies and donations which are received for specific purposes, it should be ensured that any income there from is not utilized for any other purposes.
- (viii) Where receipts of subscription show a significant deviation from budgeted figures, it should be thoroughly inquired into and the matter be brought to the notice of the trustees or the Managing Committee.
- (ix) Government grants or grants from local bodies should be verifies with the reference to the correspondence with the concerned authorities.
- (x) Clear distinction should be made between the items of capital and revenue nature.
- (xi) The capital expenditure should be incurred under proper authorization by a valid resolution of the trustees or the Managing Committee.
- (xii) Verify the system of internal check as regards purchases and issue of stores, medicines etc.
- (xiii) Examine that the appointment of the staff, payment of salaries etc. are duly authorized.
- (xiv) Physically verify the investments, fixed assets and inventories.
- (xv) Check that adequate depreciation has been provided on all the depreciable assets.

10. (b)

The auditor may perceive the following risks:

- i. Inherent Risk: It is possible that the employees might have misappropriated the inventory by manipulating the inventory records. So, inventory records may not be accurate. This leads to a risk of material misstatement.
- ii. Control Risk: Here each item of inventory carries a price tag with bar code as well as a security code (which is removed only after the billing). Additionally, physical verification of inventory is done on a fortnightly basis. Thus, the internal control appears to be quite satisfactory. However, collusion among employees at multiple layers can evade the control implemented at any time. Hence, an element of control risk is present.

- iii. Detection Risk: It is expected that the auditor will apply appropriate procedures to judge the efficiency of the control system before deciding on the extent of test checking. However, there may still be possibilities of material misstatements and the same may not be detected due to adoption of test checking. Hence, an element of detection risk can also exist.
-

CMA HUSTLERS

INTERMEDIATE EXAMINATION

December 2023

**P-10(CAA)
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.
Where considered necessary, suitable assumptions may be made and
clearly indicated in the answer.*

Working notes must form part of your answer.

SECTION-A (Compulsory)

1. Choose the correct option:

2×15=30

- (a) In determining the number of shares to be bought back, which of the following tests is not relevant as per Section 68 of the Companies Act, 2013?
- (A) Share outstanding test
 - (B) Resource test
 - (C) Current ratio test
 - (D) Debt-equity ratio test
- (b) Cash payment to suppliers is a part of _____ under direct method.
- (A) cash flow from operating activities
 - (B) cash flow from investing activities
 - (C) cash flow from financing activities
 - (D) cash flow from non-operating activities
- (c) Trade receivable likely to be settled within the normal operating cycle is _____.
- (A) current assets
 - (B) current liabilities
 - (C) non-current assets
 - (D) non-current liabilities
- (d) When an insurer transfers a part of the risk to another insurer, it is called _____.
- (A) under insurance
 - (B) reinsurance
 - (C) over insurance
 - (D) double insurance
- (e) As per Ind AS 2, *Inventories*, cost of conversion should not include _____.
- (A) direct material
 - (B) direct labour
 - (C) indirect material
 - (D) abnormal waste materials

- (f) Audit documentation is covered by _____.
- (A) SA 220
 - (B) SA 230
 - (C) SA 520
 - (D) SA 530
- (g) Which of the following is not an example of internal audit evidence?
- (A) Credit Note and Debit Note
 - (B) Sales Invoices
 - (C) Quotations
 - (D) Goods Received Notes
- (h) Form _____ is used for the purpose of intimation of appointment of cost auditor by the company to the Central Govt.
- (A) CRA – 1
 - (B) CRA – 2
 - (C) CRA – 3
 - (D) CRA – 4
- (i) No audit firm shall be appointed or reappointed as auditor for more than _____ term(s) of _____ consecutive years.
- (A) one, four
 - (B) two, four
 - (C) one, five
 - (D) two, five
- (j) If total issue size is 2,00,000 and the underwriter commits for 100% underwriting at a commission of 4%, what will be the commission payable, if number of applications received is 1,40,000. The issue price of shares is ₹ 12 for each ₹ 10 face value shares.
- (A) ₹ 28,800
 - (B) ₹ 28,000
 - (C) ₹ 30,000
 - (D) ₹ 30,800
- (k) Which of the following is not a basic element of audit report as per SA -700 (Revised)?
- (A) Auditor's opinion
 - (B) Basis of opinion
 - (C) Report of Accrual Assumption
 - (D) Key audit matters

- (l) Which of the following is not a part of rural self-governance system in India?
- (A) Gram Panchayat
(B) Gram Parishad
(C) Panchayat Samiti
(D) Zilla Parishad
- (m) Casual vacancy in the office of a cost auditor is filled by _____.
- (A) Board of Directors
(B) Shareholders
(C) Government
(D) Comptroller and Auditor General of India
- (n) According to the Central Co-operatives Societies Act, _____ percentage 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.
- (A) 20%
(B) 25%
(C) 30%
(D) 35%
- (o) Which of the following is an audit risk?
- (A) Financial Risk
(B) Operational Risk
(C) Control Risk
(D) Systematic Risk

SECTION-B

Answer *any five* questions out of *seven* questions given below. Each question carries 14 marks.

14×5=70

2. (a) A Ltd. has subscribed capital of ₹ 150 lakhs divided into 1,50,000 equity shares of ₹ 100 each fully called up.
- The company has taken the following decisions:
- (i) 3,000 equity shares on which ₹ 50 per share have been received are to be forfeited for non-payment of ₹ 30 (first call) and ₹ 20 (final call).
- (ii) 6,000 equity shares of ₹ 80 per share paid-up are to be forfeited for non-payment of final call.
- (iii) All the 9,000 shares were re-issued @ ₹ 90 per share.
- (iv) A rights issue is to be made in the ratio of 2 shares for every 5 shares held at a premium of ₹ 30 per share.

Pass necessary journal entries (with narration) in the books of the A Ltd. Assume that the rights issue was fully subscribed.

- (b) A Company is planning to raise funds by making rights issue of equity shares to finance its expansion. The existing equity share capital of the company is ₹ 50,00,000. The market value of its share is ₹ 42. The company offers to its shareholders the right to buy 2 shares at ₹ 11 each for every 5 shares held. You are required to calculate
- theoretical market price after rights issue.
 - the value of rights.
 - percentage increase in share capital.

7

3. PQR Ltd. was registered with a nominal capital of ₹ 5,00,000 divided into shares of ₹ 100 each. The following Trial Balance is extracted from the books on 31st March, 2023:

Particulars	₹	Particulars	₹
Buildings	2,90,000	Sales	5,20,000
Machinery	1,00,000	Outstanding Expenses	2,000
Opening Stock	10,000	Provision for Doubtful Debts (1-4-2022)	3,000
Loose Tools	23,000	Equity Share Capital	2,00,000
Purchases	2,90,000	General Reserve	40,000
Salaries	60,000	Profit and Loss A/c (01.04.2022)	25,000
Directors' Fees	10,000	Creditors	92,000
Rent	26,000	Provision for depreciation	
Depreciation	20,000	On Building	50,000
Bad Debts	6,000	On Machinery	55,000
Investment	1,20,000	14% Debentures	2,00,000
Interest accrued on investment	2,000	Interest on Debentures accrued but not due	14,000
Debenture Interest	28,000	Dividend Received	12,000
Advance Tax	60,000	Unclaimed dividend	5,000
Sundry expenses	18,000		
Debtors	1,25,000		
Bank	30,000		
	12,18,000		12,18,000

You are required to prepare Statement of Profit and Loss for the year ending 31st March, 2023 and Balance Sheet as at that date after taking into consideration the following information:

- (i) Closing stock is more than opening stock by ₹ 90,000.
- (ii) Provide for doubtful debts @ 4% on Debtors.
- (iii) Make a provision for income tax @30%.
- (iv) Depreciation expense included depreciation of ₹ 8,000 on Building and that of ₹ 12,000 on Machinery.
- (v) The Directors proposed a dividend @ 25% and transfer to General Reserve ₹ 10,000. Notes to Accounts should form part of your answer. 14

4. (a) Consider the following estimated information provided by XYZ Power Supply Company Ltd. (₹ in lakhs) for the next 5 years:

Cost of Coal: ₹ 2,000 per year

Cost of Secondary fuel oil: ₹ 200 per year for first 2 years and ₹ 300 per year for 3-5 years

O and M Expenses: ₹ 250 per year for first 2 years and ₹ 350 per year for 3-5 Years

Maintenance Spares: ₹ 100 per years

Receivables: ₹ 1,800 per year

Rate of Interest: 12%

Calculate the Interest on Working Capital. 7

- (b) From the following figures of Well Life assurance Company Limited, prepare a Valuation Balance Sheet and Profit Distribution Statement for the year ended 31st March, 2023. Also pass necessary journal entries to record the above transactions with narrations:

Particulars	₹ (In Lakhs)
Balance of Life Assurance Fund as 01.04.2022	167.15
Interim Bonus Paid in the Valuation Period	25.00
Balance of Revenue Account for the Year ended 31.03.2023	240.00
Net Liability as per Valuer's Certificates as on 31.03.2023	165.00

The Company declares a reversionary bonus of ₹ 185 per ₹ 1,000 and gave the policy holders an option to take bonus in cash ₹ 105 per ₹ 1,000. Total business conducted by the company was ₹ 600 lakhs. The company issued profit policy only. 3/5th of the policy holders in value opted for cash bonus. 7

5. (a) From the following information provided by P Ltd. calculate Basic EPS and Diluted EPS as per Ind AS 33:

Net profit for the year	₹ 12,50,00,000
No. of equity shares outstanding	2,50,00,000
No. of 12% Convertible Debentures of Rs.100 each (Each debenture is convertible into 8 equity shares)	2,50,000
Interest expenses for the year	₹ 30,00,000
Tax rate	30%

- (b) Calculate Cash Flow from Operating Activities from the following:

Net Profit before tax	₹ 6,80,000
Items considered in determining the above Net Profit:	
Interest on long term borrowings	₹ 80,000
Depreciation and Amortization	₹ 1,70,000
Transfer to Reserves	₹ 1,00,000
Gain on sale of machinery	₹ 60,000

Balances of Current Assets and Current Liabilities were as follows:

Particulars	Opening Balance ₹	Closing Balance ₹
Trade Receivables	5,50,000	4,80,000
Trade Payables	3,80,000	4,00,000
Inventories	2,80,000	3,20,000
Prepaid Expense	40,000	50,000
Income received in advance	10,000	30,000

6. (a) What is audit trail? Discuss the statutory provisions relating to audit trail. 7
(b) Which companies are required to undergo Secretarial audit? Discuss the provisions relating to the procedures of appointment of a Secretarial Auditor. 7
7. (a) Discuss the role of an Auditor in relation to the audit of unpaid dividend. 7
(b) What is the procedure of appointing a Cost Auditor in a company? 7
8. (a) While conducting the audit of an educational institution, how will you verify the receipt related transactions? 7
(b) Discuss the role of National Financial Reporting Authority (NFRA) in monitoring and enforcing compliance with Auditing Standards. 7
-

PAPER – 10 : CORPORATE ACCOUNTING AND AUDITING

SUGGESTED ANSWERS

SECTION - A

1.

- (a) (C)
- (b) (A)
- (c) (A)
- (d) (B)
- (e) (D)
- (f) (B)
- (g) (C)
- (h) (B)
- (i) (D)
- (j) (A)
- (k) (C)
- (l) (B)
- (m) (A)
- (n) (B)
- (o) (C)

SECTION – B

2. (a)

In the books of A Ltd.

Journal

Date	Particulars	Dr. (D)	Cr. (D)
(i)	Equity Share Capital A/c.....Dr. To Calls in Arrear A/c To Forfeited Shares A/c	3,00,000	1,50,000 1,50,000
(ii)	Equity Share Capital A/c.....Dr. To Calls in Arrear A/c To Forfeited Shares A/c	6,00,000	1,20,000 4,80,000
(iii)	Bank A/c.....Dr. Forfeited Shares A/c.....Dr. To Equity Share Capital A/c	8,10,000 90,000	9,00,000
	Forfeited Shares A/c.....Dr. To Capital Reserve A/c	5,40,000	5,40,000
(iv)	Bank A/c.....Dr. To Equity Share Capital A/c To Securities Premium A/c	78,00,000	60,00,000 18,00,000

2. (b)

- (i) Theoretical market price = D 33.14
- (ii) Value of Rights = D 8.86
- (iii) % increase in share capital = 40%

3.

PQR Ltd.
Profit and Loss Statement for the year ended 31st March, 2023

Particulars	D
I. Total Revenue	5,32,000
II. Total Expenses	3,70,000
III. Profit before Tax (I-II)	1,62,000
IV. Tax Expenses @ 30%	48,600
V. Profit for the period	1,13,400

Balance Sheet as on 31.03.2023

	D
I EQUITY AND LIABILITIES	
(1) Shareholders' Funds	3,78,400
(2) Non-Current Liabilities	2,00,000
(3) Total Current Liabilities	1,61,600
Total	7,40,000
II ASSETS	
(1) Non-Current Assets	4,05,000
(2) Current Assets	3,35,000
Total	7,40,000

4. (a)

Statement of Interest on Working Capital

(₹ in lakhs)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Total Working Capital	4,350	4,350	4,550	4,550	4,550
Rate of Interest	12%	12%	12%	12%	12%
Interest on Working Capital	522	522	546	546	546

4. (b)

In the Books of Well Assurance Co. Ltd.
Valuation Balance Sheet as on 31st March, 2023

Liabilities	₹	Assets	₹
Net Liability as per Actuarial Valuation	1,65,00,000	Life Assurance Fund	2,40,00,000
Surplus / Net Profit	75,00,000		
	2,40,00,000		2,40,00,000

Profit Distribution Statement

Particulars	₹ (In Lakhs)
Surplus / Net Profit	75,00,000
Add: Interim Bonus Paid	25,00,000
	1,00,00,000
Policy Holders' Shares	95,00,000
Less: Interim Bonus Paid	25,00,000
	70,00,000
Shareholders' Share	5,00,000

Journal

Date	Particulars	Debit (₹)	Credit (₹)
	Life Assurance Fund A/c Dr.	75,00,000	
	To Profit and Loss A/c		75,00,000
	Profit and Loss A/c Dr.	37,80,000	
	To Bonus (In Cash) Payable A/c		37,80,000
	Profit and Loss A/c Dr.	44,40,000	
	To Life Assurance Fund A/c		44,40,000

5. (a)

Basic EPS = D 5.00

Diluted EPS = D 4.71

5. (b)

Cash Flow from Operating Activities D 10,30,000

6. (a)

Concept of Audit Trail

Audit trail may be defined as the documents, records relating to transactions that enables an auditor to trace the transactions from the source documents to the summarised total in accounting reports. It is an orderly, step-by-step record of transactions that serves as a proof of a transaction's history, right from recording to tracking all changes that may take place. For example, a sequentially numbered sales invoice copies would normally be listed in a Register and subsequently filed either in numerical or chronological order. Thus, it would be possible to trace a particular invoice from the daybook to the original file by reference to the number or date of the invoice.

In an automated environment accounting software provides the ideal example of audit trails. For example, when a transaction is entered in the software, the software will maintain a record of it. Any further edits made to the details, such as a change in the name or amount will also be tracked by the software along with the user who made the changes and the time of change. Even if some transactions were to be deleted, the software will track that as well and keep the record of everything since the original entry was made.

Statutory Requirement for Audit Trail

According to Rule 3(1) of Companies (Accounts) Rules, 2014, as amended by Companies (Accounts) Amendment Rules, 2021, for the financial year commencing on or after the 1st day of April, 2022, every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

In simple words, the expectation is to maintain the edit log of every transition right from recording to tracking the changes that may take place.

6. (b)

Applicability of Secretarial Audit As per the provision of Section 204(1) of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014:

1. Every listed company;
2. Every public company having a paid-up share capital of 50 crore rupees or more; or
3. Every public company having a turnover of 250 crore rupees or more; or
4. Every company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more,

- is required to annex with its Board's Report made in terms of Section 134(3) of the Companies Act, 2013, a Secretarial Audit Report, given by a Company Secretary in practice, in Form MR-3. Appointment of Secretarial Auditor As per Rule 8 of the Companies (Meetings of Board and its Powers) Rules, 2014, read with Section 179 of the Companies Act, 2013, secretarial auditor is required to be appointed by means of resolution at a duly convened board meeting.

It is advisable for the Secretarial Auditor to get a letter of engagement from the company. Secretarial Auditor should accept the letter of engagement. The company shall report any change in the secretarial auditor during the financial year to the members through the Board's Report. The qualifications, observations or comments / remarks of the secretarial Audit Report shall be read at the annual general meeting of the company along with the explanation and comments of the Board of Directors (Clause 13 of Secretarial Standard 2).

7. (a)

Audit Procedure for Unpaid Dividend

- (i) The auditor should collect a statement or list containing every detail regarding the unpaid dividend such as the names of the shareholders, dividend payable to them, dividend warrant number, reason for the dividend remaining unpaid etc.
- (ii) The auditor shall conduct an enquiry to identify whether there was any fault on the part of the company and if so, what action has been taken against the company.
- (iii) The auditor shall verify the statement provided by the management in this respect with other supporting documents like Dividend Register, Returned Warrants, bank statement, etc. and shall determine whether the dividend amount has been accurately calculated.
- (iv) The auditor shall also verify whether the unpaid dividend has been transferred to a separate account namely Unpaid Dividend Account within seven days from the expiry of 30 days allowed for declaration and payment of dividend.
- (v) The auditor must verify whether there is any fault on the part of the company and if so whether they have deposited the interest and the penalty.
- (vi) The auditor shall also verify whether the company has published the details of unpaid dividend in its own website and also in other website(s) approved by the government for this purpose.
- (vii) Any payment of previously unpaid dividend must be verified by the auditor to see that the same has been paid to the rightful owner.
- (viii) In case any amount of dividend is remaining unpaid for more than seven years, the auditor shall verify whether the same along with the interest accrued thereon has been transferred by the company to IEPF.
- (ix) The auditor shall also verify whether all the shares in respect of which unpaid dividend has been transferred to IEPF, have also been transferred to such fund.

7. (b)

The Cost Auditor is to be appointed by the Board of Directors (BOD) on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors.

The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2 along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors (BOD) within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

8. (a)

Audit Procedure for Receipts Related Transactions of an Educational Institution

- (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.

8. (b)

Role of NFRA in 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 require an auditor to report on its governance practices and internal processes designed to promote audit quality, protect its reputation and reduce risks including risk of failure of the auditor and may take such action on the report as may be necessary.
- (3) 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.
- (4) The Authority shall perform its monitoring and enforcement activities through its officers or experts with sufficient experience in audit of the relevant industry.
- (5) 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.
- (6) 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.
- (7) The Authority may send a separate report containing proprietary or confidential information to the Central Government for its information.
- (8) Where the Authority finds or has reason to believe that any law or professional or other standard has or may have been violated by an auditor, it may decide on the further course of investigation or enforcement action through its concerned Division.

INTERMEDIATE EXAMINATION

June 2024

P-10(CAA)
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.
Where considered necessary, suitable assumptions may be made
and clearly indicated in the answer.
All workings should form part of the answer.*

Section-A (Compulsory)

1. Choose the correct option from the four alternatives given:

2×15=30

- (i) Redeemable preference shares of ₹ 10,00,000 were redeemed @ 10% premium out of fresh issue of share capital. What amount shall be transferred to Capital Redemption Reserve Account?
- (A) ₹ 10,00,000
(B) ₹ 1,00,000
(C) Nil
(D) None of the above
- (ii) Which of the following reserves cannot be used for the purpose of issuing bonus shares?
- (A) Revaluation Reserve
(B) Free Reserves
(C) Capital Redemption Reserve
(D) Securities Premium Account
- (iii) Discount Received shall be shown under _____ in the Statement of Profit and Loss.
- (A) Revenue from Operation
(B) Other Income
(C) Finance Cost
(D) Other Expenses

- (iv) Which of the following is not treated as Cash Flow from operating activities in Cash Flow Statement?
- (A) Cash Receipts from Sale of goods
 - (B) Cash Receipts from Royalties, Commission
 - (C) Cash payments for Insurance premium
 - (D) Cash receipts from other parties for repayment of Loans
- (v) A Banking Company needs to transfer a minimum of _____ of its profit to reserve fund.
- (A) 10%
 - (B) 15%
 - (C) 20%
 - (D) 25%
- (vi) Which of the following is not a mandatory financial statement of a Life Insurance Company as per IRDA regulations Schedule A?
- (A) Revenue Account
 - (B) Profit and Loss Account
 - (C) Balance Sheet
 - (D) Cash Flow Statement
- (vii) Salary payable per day ₹ 1,000; Working days 300; Leave unutilized during the year 3 days; unutilized leaves are not allowed to be carried forward , but are settled through payment. What is the expense to be recognised as per Ind AS 19?
- (A) ₹ 3,00,000
 - (B) ₹ 3,30,000
 - (C) ₹ 3,03,000
 - (D) ₹ 3,000
- (viii) Which of the following is not a duty of the Company Auditor as per section 143 of the Companies Act, 2013?
- (A) Duty to make enquiry
 - (B) Duty to prepare financial statements
 - (C) Duty to give reasons for negative reporting
 - (D) Duty to comply with the directions of CAG

- (ix) Which of the following is a method of obtaining audit evidence?
- (A) Inspection
 - (B) Observation
 - (C) Analytical Review
 - (D) All of the above.
- (x) Which of the following is not an audit risk?
- (A) Inherent Risk
 - (B) Detection Risk
 - (C) Control Risk
 - (D) Omission Risk
- (xi) An auditor shall submit disclaimer of opinion when _____.
- (A) the financial statements exhibit true and fair view
 - (B) the financial statements are partially correct
 - (C) the financial statements are incomplete
 - (D) the financial statements are unavailable
- (xii) The first auditor of a Govt. Company is appointed by
- (A) Board of Directors
 - (B) Shareholders
 - (C) Audit Department
 - (D) CAG
- (xiii) An Audit Committee should have minimum _____ number of Directors.
- (A) 4
 - (B) 3
 - (C) 5
 - (D) 6

- (xiv) Which of the following is not a part of urban self-governance system in India?
- (A) Municipal Corporation
 - (B) Town Panchayat
 - (C) Municipality
 - (D) Municipal Society
- (xv) Auditor in a co-operative society is appointed by the _____.
- (A) Reserve Bank of India
 - (B) National Bank for Agriculture and Rural Development
 - (C) Registrar of Co-operative Societies
 - (D) Secretary, Co-operative Department, State Government

SECTION B

Answer any 5 questions out of 7 questions given below.

Each question carries 14 marks.

14×5=70

2. (a) Jumbo Limited is planning to raise funds by making rights issue of equity shares to part finance its expansion. The existing equity share capital of the company is ₹ 40,00,000. The market value of its share is ₹ 45. The company offers to its shareholders the right to buy 2 shares at ₹ 12 each for every 5 shares held. You are required to **calculate**:
- (i) Theoretical market price per share after the rights issue;
 - (ii) The value of rights; and
 - (iii) Percentage increase in share capital 7
- (b) T Ltd. invited applications from public for 2,00,000 shares of ₹ 100 each at a premium of ₹ 20 per share. The entire issue was underwritten by the underwriters A, B, C and D to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 6,000; 4,000; 2,000 and 2,000 shares respectively.
- The company received applications for 1,40,000 shares from the public out of which applications for 38,000, 20,000, 42,000 and 16,000 shares were marked in favour of A, B, C and D respectively. The applications received from the public do not include firm underwriting.
- Calculate** the liability of each of the underwriters. 7

3. The following is the trial balance of Star Ltd. as on 31.03.2024:

Debit Balances	₹	Credit Balances	₹
Stock in trade on 01.04.23	3,00,000	Purchase returns	40,000
Purchases	9,80,000	Sales	13,60,000
Salaries	1,20,000	Discount received	12,000
Freight, carriage etc.	3,800	Balance of Profit and Loss (Cr.)	60,000
Furniture	68,000	Share capital (₹ 10)	4,00,000
Contribution to P. F.	20,000	Trade payables	98,000
Rent and Rates	16,000	General reserve	62,000
Stationary	7,600		
Repairs	8,000		
Insurance	12,000		
Misc. expenses	600		
Interim dividend paid	36,000		
Staff welfare expenses	10,000		
Plant and machinery	1,16,000		
Cash at bank	1,84,800		
Patents	19,200		
Trade receivables	1,30,000		
	20,32,000		20,32,000

You are required to **prepare** Statement of Profit and Loss for the year ending 31st March, 2024 and Balance Sheet as at that date after taking into consideration the following information:

- (i) Closing stock as at 31.03.2024 is ₹ 3,52,000.
- (ii) Make a provision for income tax @30%.
- (iii) Depreciate Plant and machinery @ 15%, Furniture @ 10% and Patents @ 5%.
- (iv) Outstanding rent ₹ 3,200 and outstanding salaries ₹ 3,600.
- (v) The Directors recommended a dividend @ 15% for the year (including interim dividend) after transfer to General Reserve ₹ 8,000.
- (vi) Provide ₹ 2,040 for doubtful debts.
- (vii) The Authorized capital of the company is ₹ 8,00,000 divided into 80,000 Equity shares of ₹ 10 each of which 40,000 shares have been issued and fully paid up.

Notes to Accounts should form part of your answer.

4. (a) The following information is available in the books of a Bank.

Rebate on Bills discounted as on 01.04.2023 ₹ 65,500; Discount received during the year 2023-24 ₹ 1,25,000.

An analysis of the Bills discounted is as follows:

	Amount (₹)	Due Date	Rate of Discount (in %)
(i)	36,000	June 7, 2024	12
(ii)	34,200	June 14, 2024	12
(iii)	14,000	July 19, 2024	10
(iv)	14,000	August 10, 2024	15
(v)	12,500	September 5, 2024	13
(vi)	11,000	October 7, 2024	14

You are required to:

- (i) Calculate the rebate on Bills discounted as on 31-03-2024 and show necessary journal entries.
- (ii) Compute the amount of discount credited to Profit and Loss Account. 7
- (b) Prepare the Fire Insurance Revenue Account of Jwala Fire Insurance Ltd. as per IRDA regulations for the year ended 31st March, 2024 from the following details:

Particulars	Amount (₹)
Claims paid	5,00,000
Legal Expenses regarding claims	10,000
Premiums received	12,50,000
Re-insurance premium paid	50,000
Commission	3,00,000
Expenses of Management	2,00,000
Provision against unexpired risk as on 1st April, 2023	5,75,000
Claims unpaid on 1st April, 2023	50,000
Claims unpaid on 31st March, 2024	80,000

Provide for unexpired risk @ 50% less reinsurance. 7

5. (a) B Ltd. supplied the following information:

Net Profit for 2022-23 = ₹ 15,00,000

Net Profit for 2023-24 = ₹ 22,50,000

No. of shares prior to right issue = 10,00,000

Terms of right issue: 1 new share for every 4 shares held; right issue price = ₹ 30

Fair value of 1 ordinary share immediately prior to exercise of right = ₹ 36

Calculate basic EPS for 2022-23 and 2023-24 and restated EPS for 2022-23. 7

- (b) From the following summary of cash account of XL Pharma Ltd. for the year ended 31.03.2024, **calculate** Cash Flow from Operating Activities using Direct Method and **prepare** Cash Flow Statement. 7

Particulars	₹ (Dr)	Particulars	₹ (Cr)
To Balance b/d	2,50,000	By Cash Purchase	2,60,000
To Cash Sales	3,00,000	By Trade Payables	2,88,000
To Trade Receivables	3,20,000	By Rent	1,00,000
To Interest and Dividend	4,000	By Administrative Exp.	50,000
To Bank Loan	3,00,000	By Income Tax	60,000
To Sale of Investment	1,60,000	By Investment	1,80,000
To Trade Commission	80,000	By Repayment of Loan	2,00,000
		By Interest on Bank Loan	14,000
		By Balance c/d	2,62,000
	14,14,000		14,14,000

6. (a) Describe the contents of Audit Working Papers. 7
- (b) With reference to Section 177 of the Companies Act, 2013, examine the power of the Audit Committee of a company. 7
7. (a) Discuss the audit procedure to be followed for audit of Inventory. 7
- (b) Analyse Auditor's responsibility for reporting on Internal Financial Control over Financial Reporting. 7
8. (a) Mr. B has been appointed as the Auditor of Deluxe Hotels for the financial year 2023-24. Mr. B seeks your opinion in designing an elaborate plan for this assignment. Prepare a list of important items to be checked by Mr. B in conducting the audit of Deluxe Hotels. 7
- (b) Analyse the pros and cons of Joint Audit. 7

SUGGESTED ANSWERS

SECTION – A

1.

- (i) (D)
- (ii) (B)
- (iii) (D)
- (iv) (B)
- (v) (A)
- (vi) (B)
- (vii) (D)
- (viii) (B)
- (ix) (B)
- (x) (D)
- (xi) (D)
- (xii) (C)
- (xiii) (B)
- (xiv) (A)
- (xv) (A)

SECTION – B

2. (a)

The primary functions (also known as banking functions) of commercial banks in India are:

- (a) **Acceptance of Deposits from Public** : Bank accepts following deposits from publics:
 - (i) Demand deposits can be in the form of current account or savings account. These deposits are withdrawable any time by depositors by cheques. Current deposits have no interest or nominal interest. Such accounts are maintained by commercial firms and business man. Interest rate of saving deposits varies with time period. Savings accounts are maintained for encouraging savings of households.
 - (ii) Fixed deposits are those deposits which are withdrawable only after a specific period. It earns a higher rate of interest.
 - (iii) In recurring deposits, people deposit a fixed sum every month for a fixed period of time.
- (b) **Advancing Loans**: It extends loans and advances out of money deposited by public to various business units and to consumers against some approved. Usually, banks grant short-term or medium-term loans to meet requirements of working capital of industrial units and trading units. Banks discourage loans for consumption purposes. Loans may be secured or unsecured. Banks do not give loan in form of cash. They make the customer open account and transfer loan amount in the customer's account.

Banks grant loan in following ways: –

- (i) Overdraft
- (ii) Cash Credit
- (iii) Discounting Trade Bills
- (iv) Term Loan
- (v) Consumer Credit
- (vi) Money at Call or Short-term Advances

- (c) **Credit Creation:** Credit creation is another banking function of commercial bank. i.e., it manufactures money.
- (d) **Use of Cheque System:** Banks have introduced the cheque system for withdrawal of deposits. There are two types of cheques – bearer & cross cheque.
- (e) **Remittance of Funds:** Banks provides facilities to remit funds from one place to another for their customers by issuing bank drafts, mail transfer etc.

2. (b)

Utilizing data mining techniques, hidden patterns and future trends and behaviours in financial markets may be predicted. Typically, sophisticated statistical, mathematical, and artificial intelligence approaches are necessary for data mining, particularly for high-frequency financial data.

Among the data mining applications are:

(i) **Detecting money laundering and other financial crimes:**

Money laundering is the illegal conversion of black money to white money. In today's society, data mining techniques have advanced to the point where they are deemed suitable for detecting money laundering. The data mining methodology provides a mechanism for bank customers to detect or verify the detection of the anti-money laundering impact.

(ii) **Prediction of loan repayment and customer credit policy analysis:**

Loan Distribution is the core business function of every bank. The loan Prediction system automatically computes the size of the characteristics it employs and examines data pertaining to its size. Consequently, data mining aids in the management of all critical data and massive databases by utilising its models.

(iii) **Target marketing:**

Together, data mining and marketing work to target a certain market, and they also assist and determine market decisions. With data mining, it is possible to keep earnings, margins, etc. and determine which product is optimal for various types of customers.

(iv) **Design and construction of data warehouses:**

The business is able to retrieve or move the data into several huge data warehouses, allowing a vast volume of data to be correctly and reliably evaluated with the aid of various data mining methodologies and techniques. It also examines a vast number of transactions.

3. (a)

- (a) Sales = D 12,00,000
- (b) Sundry Debtors = D 2,00,000
- (c) Closing Inventories = D 1,20,000
- (d) Sundry Creditors = D 76,250

3. (b)

Cash Flow Statement for the year ended on 31.03.2024

Particulars	E	E
I. Cash flow from operating activities:		
Sales (all in cash)	9600000	
Less: Payment to suppliers	<u>7100000</u>	
	2500000	
Less: Operating expenses	<u>720000</u>	
Cash generated from operation	1780000	
Less: Taxes paid	<u>300000</u>	1480000
II. Cash flow from investing activities:		
Purchase of land	(800000)	
Purchase of Machinery	(400000)	
Interest received on investment	<u>20000</u>	(1180000)
III. Cash flow from financing activities:		
Equity Dividend paid	<u>(240000)</u>	<u>(240000)</u>
Net increase in cash and cash equivalent		60000
Add: Opening cash and cash equivalent		<u>80000</u>
Closing cash and cash equivalent		<u>140000</u>

4. (a)

Comparative Income Statement for the year ended on 31.03.2023 and 31.03.2024

Particulars	2022-23 E ('000)	2023-24 E ('000)	Absolute Change E ('000)	Percentage Change (%)
Net Sales	1890	2500	610	32.28
Less: Cost of Goods Sold	1240	1570	330	26.61
Gross Profit	650	930	280	43.07
Less: Operating Expenses:				
O&A and Selling expenses	270	314	44	16.30
Operating Profit	380	616	236	62.10
Less: Non-operating Expenses:				
Interest on Loan	50	70	20	40.00
PBT	330	546	216	65.45
Less: Income Tax	110	120	10	9.09
PAT	220	426	206	93.64

4. (b)

- (i) Weighted average cost of capital (using Book Value weights) = 13.928% (approximately)
- (ii) Weighted average cost of capital (using Market Value weights) = 14.578% (approximately)

5. (a)

The initial selling price of new product is D 399.20 per unit.

5. (b)

Year	CFAT (D)	Cumulative CFAT (D)
1	396000	396000
2	441500	837500
3	357000	1194500
4	318000	1512500
5	452000	1964500

Pay back (PB) period:

The recovery of investment (D 13,60,000) falls between the third and fourth years.

Therefore, the PB is 3 years plus a fraction of 4th year.

The fractional value is = 0.52.

Thus, the PB period is 3.52 years.

Advice : Since, the target PBP is higher, the project is acceptable.

Year	CFAT (D)	Total PV (D)	Cumulative PV (D)
1	396000	353628	353628
2	441500	351876	705504
3	357000	254184	959688
4	318000	202248	1161936
5	452000	256284	1418220

Discounted Pay back (DPB) period:

Discounted PB period is 4 years plus a fraction of 5th year.

The fractional value is = 0.77.

Thus, the discounted PB period is 4.77 years.

Advice : Since, the target DPBP is lower, the project is not acceptable.

6. (a)

MJK LTD.

Statement Showing Working Capital Requirement

	D	D
Current Assets:		
Stock of Raw Material	1,00,000	
Work in Progress	37,500	
Stock of Finished Goods	1,00,000	
Debtors	1,75,000	
Cash	25,000	
Total Current Assets		4,37,500
Less: Current Liabilities:		
Creditors		50,000
Estimated Working Capital Requirement		3,87,500

6. (b)

MJ Ltd.

Table Indicating Lot Size

Annual requirement of cash (D)	10,00,000	10,00,000	10,00,000	10,00,000	10,00,000
Lot size of securities (D)	50,000	1,00,000	2,00,000	2,50,000	5,00,000
Number of transaction	20	10	5	4	2
Average holding of cash (D)	25,000	50,000	1,00,000	1,25,000	2,50,000
Opportunity holding cost of cash	1250	2,500	5,000	6,250	12,500
Fixed conversion cost per transaction (D)	1000	1,000	1,000	1,000	1,000
Total conversion cost (D)	20,000	10,000	5,000	4,000	2,000
Total cost (D)	21,250	12,500	10,000	10,250	14,500

From the above table it is clear that the total cost is minimum at D 10,000 when the lot size of securities is D 2,00,000 and thus it is Economic Lot Size of selling securities.

Economic Lot Size (Baumol Model)

$$C_{1000} = \sqrt{\frac{2 \times 10,00,000}{0.05}} = \text{D } 2,00,000$$

7. (a)

As per Gordon's Model, value per share = D 20.00

If pay-out ratio = 10% i.e. 0.10, then, retention ratio = 90% = 0.90

Value per share = (-) D 6.67

Now, if pay-out ratio = 90% i.e. 0.90, then, retention ratio = 10% = 0.10

Value per share = D 13.85

In this case $r > k$, so the firm is a growth firm. Hence, according to Gordon Model as the retention ratio increases the value per share also increases. Therefore, the optimal policy for the firm is to retain as much as possible. However, according to Gordon, maximum retention ratio should be lower than 0.75.

7. (b)

Jai Ltd.

EPS and Financial Leverage

	Financial Plan - A	Financial Plan - B	Financial Plan - C	Financial Plan - D
Earnings per shares (EPS)	D 10.71	D 12.55	D 13.20	D 12.27
Degree of Financial Leverage	1.00	1.087	1.136	1.11

Comment:

From the above analysis we find that EPS as well as degree of financial leverage (DFL) is highest in Financial Plan C. So, Plan C should be accepted. The company should raise D 10 lakhs in equity shares and the balance of D 20 lakhs through long-term borrowing at 9% interest p.a.

8. (a)

There are different ways data can be classified. These are -

- (a) Quantitative financial data: By the term „quantitative data“, we mean the data expressed in numbers. The stock price data, financial statements etc. are examples of quantitative data.
- (b) Qualitative financial data: However, some data in financial studies may appear in a qualitative format e.g. text, videos, audio etc. These types of data may be very useful for financial analysis. For example, the „management discussion and analysis“ presented as part of annual report of a company is mostly presented in the form of text.

There is another way of classifying the types of data. The data may be classified also as:

- (i) Nominal
- (ii) Ordinal
- (iii) Interval
- (iv) Ratio

The differentiation between the four scale types is based on three basic characteristics:

- (a) Whether the sequence of answers matters or not
- (b) Whether the gap between observations is significant or interpretable, and
- (c) The existence or presence of a genuine zero.

These types are discussed below:

- (i) Nominal Scale: Nominal scale is being used for categorizing data. The category labels may contain numbers but have no numerical value. Examples could be, classifying equities into small-cap, mid-cap, and large-cap categories or classifying funds as equity funds, debt funds, and balanced funds etc.
- (ii) Ordinal Scale: Ordinal scale is being used for classifying and put it in order. The numbers just indicate an order. They do not specify how much better or worse a stock is at a specific price compared to one with a lower price. For example, the top 10 stocks by P/E ratio.
- (iii) Interval scale: Interval scale is used for categorizing and ranking using an equal interval scale. Equal intervals separate neighbouring scale values. The temperature of 40 degrees is 5 degrees higher than that of 35 degrees. The issue is that a temperature of 0 degrees Celsius does not indicate the absence of temperature.
- (iv) Ratio scale: The ratio scale possesses all characteristics of the nominal, ordinal, and interval scales. The acquired data can not only be classified and rated on a ratio scale, but also have equal intervals. A ratio scale has a true zero. For example, length, time, mass, money, age, etc. are typical examples of ratio scales.

8. (b)

There are few strategic steps to include Data Visualisation in report design, as mentioned below:

- **Find a story in the data**
Data-driven storytelling is a powerful tool. Finding a story that connects with the reader can help to create an effective report. It's also not that hard as it looks. In order to locate the story, one must arrange the data, identify any missing numbers, and then check for outliers. One may then view the data and examine the link between factors.
- **Create a narrative**
When some individuals hear the term “data storytelling,” they believe that it consists of a few statistics and that the task is complete. This is a frequent misconception that is false. Strong data storytelling comprises an engaging narrative that takes the audience through the facts and aids in their comprehension. Moreover, an explanation of the significance of these ideas is essential. To compose an excellent story, one must:

- (i) Engage the viewer with a catchy title and subheadings.
- (ii) Incorporate context into the data.
- (iii) Create a consistent and logical flow.
- (iv) Highlight significant discoveries and insights from the data.

- **Choose the most suitable data Visualisation**

Data Visualisation is not limited to the creation of charts and graphs. It involves presenting the facts in the most comprehensible chart possible. Applying basic design principles and utilising features like as form, size, colour, and labelling may have a significant impact on how people comprehend the data. For instance, deciding the optimal number of slices for a pie chart or the space between bars in a bar graph. Knowing these tips may greatly improve the data visualisations.

- **Follow the visual language**

The report design may be for internal or external consumption. Despite this, one should develop material consistent with the company's style guide. It is essential to adhere to data visualisation principles in order to achieve both uniformity and comprehension. A strategic methodology assists in implementation.

- **Publicize the report**

Some reports are not intended for public consumption. However, since they include so much essential information, they may contain knowledge that is of interest to individuals or media outside of the business.

INTERMEDIATE EXAMINATION

December 2024

P-10(CAA)
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.

All sections are compulsory. Each section contains instructions regarding the number of questions to be answered within the section. All working notes must form part of the answer. Wherever necessary, candidates may make appropriate assumptions and clearly state them in the respective answer.

Section-A
(Compulsory)

1. Choose the most appropriate option for the following MCQs: 2×15=30

- (i) Which of the following is not a statutory book of a company?
- (A) Register of investments held and their names
 - (B) Annual Returns
 - (C) Register of officers
 - (D) Register of shareholdings of the directors
- (ii) Company may purchase its own shares or other specific securities out of
- 1. Free reserves
 - 2. Securities premium account
 - 3. Proceeds of issue of any shares
 - 4. Proceeds of issue of specified securities
- (A) 1 and 3 only
(B) 1, 2 and 3 only
(C) 1, 3 and 4 only
(D) 1 or 2 or 3 or 4
- (iii) Which of the following is/are not a criteria to classify a liability as current liability?
- (A) It is expected to be settled in the company's normal operating cycle.
 - (B) It is held primarily not for the purpose of being traded.
 - (C) It is due to be settled within twelve months after the reporting date.
 - (D) The company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

- (iv) In the Notes to Accounts, Contingent Liabilities shall be classified as _____.
- (A) claims against the company not acknowledged as debt
 - (B) guarantees
 - (C) other money for which the company is contingently liable
 - (D) All of the above
- (v) Which of the following is not a mandatory financial statement of a General Insurance company as per IRDA regulations?
- (A) Revenue Account
 - (B) Profit and Loss Account
 - (C) Balance Sheet
 - (D) Cash Flow Statement
- (vi) SA 600 deals in matters connected with _____
- (A) Using the work of another Auditor.
 - (B) Audit Sampling.
 - (C) Comparative Information.
 - (D) Related Parties.
- (vii) As per SQC 1, the audit working papers must be retained by the statutory auditors for a period of _____ years.
- (A) five
 - (B) six
 - (C) seven
 - (D) eight
- (viii) Audit Documentation is related to _____.
- (A) SA300
 - (B) SA230
 - (C) SA250
 - (D) SA310
- (ix) A Cost Auditor submits his report along with reservations and observations in Form No. _____.
- (A) CRA 1
 - (B) CRA 2
 - (C) CRA 3
 - (D) CRA 4

- (x) Which of the following is/ are the benefits of Internal Financial Control?
- (A) Improved controls over financial reporting process
 - (B) Trickle down of accountability to operational management
 - (C) Improved investor confidence in entity's operations and financial reporting process
 - (D) All of the above
- (xi) The statutory auditor apprehends a possible material misstatement due to inadequate internal check system. The risk associated with this apprehension is known as _____.
- (A) Inherent Risk
 - (B) Detection Risk
 - (C) Control Risk
 - (D) Operational Risk
- (xii) In relation to advances made by bank, an Auditor needs to review which of the following?
- (A) Scrutinise the subsidiary ledger and control accounts
 - (B) Scrutinize the overdue account and scheme for recovery of such account
 - (C) Ensure proper documentation of account
 - (D) All of the above
- (xiii) Which of the following is not a part of Temporary Audit file?
- (A) Correspondence relating to acceptance of annual reappointment
 - (B) Audit programme
 - (C) Extracts of minutes of board meetings
 - (D) Legal and organization structure of the company
- (xiv) Which of the following is not a content of audit report as per CARO?
- (A) Inventory
 - (B) Acceptance of Deposit
 - (C) Recruitment of Employees
 - (D) Repayment of Loan

- (xv) Reappointment of Company Auditor is guided by section _____ of Companies Act, 2013.
- (A) 139(3)
(B) 139(5)
(C) 139(7)
(D) 139(9)

Section-B

Answer any 5 questions out of 7 questions given below.

Each question carries 14 marks.

14×5=70

2. (a) P Ltd. issued 6,000 equity shares of ₹ 10 each payable as ₹ 3 per share on Application, ₹ 5 per share (including ₹ 2 as premium) on Allotment and ₹ 4 per share on Call. All the shares were subscribed. Money due on all shares was fully received excepting M, holding 100 shares, failed to pay the Allotment and Call money and N, holding 200 shares, failed to pay the Call Money. All those 300 shares were forfeited. Of the shares forfeited, 250 shares (including whole of M's shares) were subsequently reissued to Q as fully paid up at a price of ₹ 8 per share. Prepare necessary entries (with narration) in the Journal of the company to record the forfeiture and reissue. Working should form part of your answer. 7
- (b) Akash Ltd. has issued 2,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms and conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and get the balance in cash. Debenture holders amounting ₹ 40,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to
- (i) Calculate the number of shares issued;
(ii) Calculate cash paid for redemption of ₹ 40,000 debenture holders; and
(iii) Pass journal entry for conversion and redemption of debentures. 7
3. Alpha Ltd. provides the following Trial Balance as on 31st March, 2024:

Particulars	Dr. Balances (₹)	Cr. Balances (₹)
Equity Share Capital: 300000 shares of ₹ 10 each fully paid		30,00,000
General reserve		2,00,000
Profit and Loss Balance (Cr.)		3,00,000
10% Debentures		3,00,000
Motor Van	4,00,000	

Particulars	Dr. Balances	Cr. Balances
	(₹)	(₹)
Machinery	20,00,000	
Building	12,00,000	
12% Long Term Govt. Securities	2,00,000	
Sales		60,00,000
Sales Return	3,00,000	
Interest on Debenture	22,500	
Purchase	36,00,000	
Purchase Returns		4,00,000
Opening Stock	3,00,000	
Discount Allowed	7,500	
Carriage Outward	1,50,000	
Rent and Rates	50,000	
Income from Govt. Securities		24,000
Trade Receivables	10,00,000	
Trade Payables		2,00,000
Advertisement	1,50,000	
Bad Debt	20,000	
Salaries	6,72,000	
Misc. Expenditure	30,000	
Contribution to P.F. and Gratuity Funds	1,00,000	
Cash at Bank and in hand	2,22,000	
Total	1,04,24,000	1,04,24,000

Additional Information:

- (i) Closing Stock as on 31st March, 2024 was ₹ 3,50,000.
- (ii) Depreciation Rates: Motor Vehicle 10%, Machinery 20% and Building 5%.
- (iii) Interest on debenture is payable quarterly and the last quarter's interest is yet to be paid.
- (iv) Trade receivables include a sum of ₹ 25,000 due from Mr. X who has become insolvent and only 25 paise in a rupee is expected to be recoverable from him. Create a provision for doubtful debt @ 2% on other trade receivables.
- (v) Provide for income tax ₹ 1,50,000.

- (vi) The directors proposed a dividend @ 10% on paid-up capital for the year ended 2023-24. Transfer to be made to General reserve ₹ 1,00,000.

Prepare the Statement of Profit and Loss for the year ended on 31.03.2024 and a Balance Sheet as on that date. Notes should form part of the answer. 14

4. (a) The books of a Bank include a loan of ₹ 15,00,000 advanced on 31.12.2022, interest chargeable @ 10% p.a. compounded quarterly.

The security for the loan is 21,000 shares of ₹ 100 each in a public limited company valued @ ₹80 each. There is no repayment till 31.03.2024, (including accrued Interest). On 31.03.2024, the value of shares declined to ₹ 70 per share.

How would you classify the loan as secured or unsecured in the Balance Sheet? State with reasons. 7

- (b) The Revenue Account of an Insurance company shows the life assurance fund on 31st March, 2023 at ₹ 30,00,000 before taking into account the following items:

- (i) Claims covered under re-insurance ₹ 6,000.
- (ii) Bonus utilized in reduction of life insurance premium ₹ 2,250.
- (iii) Interest accrued on securities ₹ 4,100.
- (iv) Outstanding premium ₹ 2,700.
- (v) Claims intimated but not admitted ₹ 13,250.

What is the life assurance fund after taking into account the above omissions? 7

5. (a) Consider the following information:

No. of employees (same as the previous year) = 450

Employees' turnover rate = 8%

Bonus paid to each employee last year = ₹ 3,00,000

Increase in bonus rate due to inflation = 6% (as per company's regular practice)

Calculate the liability and expense to be recognized as per Ind AS-19. Also state under which category this type of Employee Benefit will be classified: (i) Short Term (ii) Post employment (iii) Other long term and (iv) Termination. 7

- (b) The following figures have been extracted from the books of Y Ltd. for the year ended on 31.03.2024, you are required to work out Cash Flow from Operating Activities. 7

- (i) Net profit before taking into account Income Tax but after taking into account the following items was ₹ 10 lakhs.

(A) Depreciation on Fixed Assets ₹ 2,95,000.

(B) Discount on issue of Debentures written off ₹ 15,000.

(C) Interest on Debentures paid ₹ 1,75,000.

(D) Book value of investments ₹ 1,50,000 (sale of investments for ₹ 1,60,000).

(E) Interest received on investments ₹ 30,000.

(ii) Income tax paid during the year ₹ 5,25,000.

(iii) Non cash Working capital on 1.4.2023 ₹ 5,86,000 and on 31.3.2024 ₹ 6,39,000.

6. (a) Describe the essential characteristics of a sound internal check system. 7
(b) Illustrate the provisions of Companies Act, 2013 and SEBI Regulations relating to the applicability and conduct of Secretarial Audit. 7
7. (a) State the differences between Audit report and Audit certificate. 7
(b) Explain, in detail, the Role of NFRA (National Financial Reporting Authority). 7
8. (a) Mr. A has been appointed as the Auditor of XYZ Co-operative Society for the financial year 2023-24. Mr. A seeks your opinion in designing an elaborate plan for this assignment. Prepare and suggest a list of important steps to be taken by Mr. A in conducting the audit of XYZ Co-operative Society. 7
(b) Discuss the provisions of the Companies Act, 2013 regarding appointment of first Auditor of a company. 7
-

The first of these is the...
The second is the...
The third is the...
The fourth is the...
The fifth is the...
The sixth is the...
The seventh is the...
The eighth is the...
The ninth is the...
The tenth is the...

PAPER – 10 : CORPORATE ACCOUNTING AND AUDITING

SUGGESTED ANSWERS

SECTION-A

1.

- (i) (C)
- (ii) (D)
- (iii) (B)
- (iv) (D)
- (v) (D)
- (vi) (A)
- (vii) (C)
- (viii) (B)
- (ix) (C)
- (x) (D)
- (xi) (C)
- (xii) (D)
- (xiii) (D)
- (xiv) (C)
- (xv) (D)

SECTION-B

2. (a)

**In the books of P Ltd.
Journal**

Date	Particulars	L.F	Debit (₹)	Credit (₹)
1st	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Equity Share Allotment A/c To Equity Share Call A/c To Forfeited Share A/c		3,000 200	500 1,200 1,500
	Alternatively, Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Calls-in-arrear A/c To Forfeited Share A/c		3,000 200	1,700 1,500
2nd	Bank A/c.....Dr. Forfeited Share A/c.....Dr. To Equity Share Capital A/c		2,000 500	2,500
3rd	Forfeited Shares A/c.....Dr. To Capital Reserve A/c		700	700

Note: Entries to be supported by Narration.

Calculation of Amount to be transferred to Capital Reserve

Amount forfeited per share of M	₹ 3
Less: Loss on re-issue per share	₹ 2
Surplus	₹ 1
Amount forfeited per share of N	₹ 6
Less: Loss on re-issue per share	₹ 2
Surplus	₹ 4

Transferred to Capital Reserve: M's share (100 x ₹ 1) = ₹ 100;

N's share (150 x ₹ 4) = ₹ 600.

Total = ₹ 100 + ₹ 600 = ₹ 700.

2. (b)

(i) **Number of shares issued:**

Debenture holders opted for conversion (40,000 /100) = 400

Option for conversion = 20%

Number of debentures to be converted (20% of 400) = 80

Redemp. value of 80 debentures at a premium of 5% [80 x (100+5)] = ₹ 8,400

Equity shares of ₹ 10 each issued on conversion [₹ 8,400/ ₹.20] = 420 shares

(ii) **Cash to be paid:**

Number of debentures - number of debentures to be converted into equity shares= 400- 80 =320 Debentures

Redemption value of 320 debentures (320 × ₹ 105) = ₹ 33,600

(iii) **Journal of Akash Limited:**

Date	Particulars	L.F.	Dr.(₹.)	Cr.(₹.)
1	Debentures A/c Dr. Premium on redemption A/c Dr. To Debenture holders A/c		40,000 2,000	42,000
2	Debenture holders A/c Dr. To Equity Share capital A/c To Securities premium A/c To Bank A/c		42,000	4,200 4,200 33,600

Note: Entries to be supported by Narration.

3.

Alpha Ltd.

Statement of Profit and Loss for the year ended 31st March, 2024

Particulars	Amount(₹)
I. Revenue from operations	57,00,000
II. Other income (Income from Govt. Securities)	24,000
III. Total Revenue [I + II]	57,24,000
IV. Expenses:	
Cost of purchase	32,00,000
Changes in inventories	(50000)
Employee Benefits Expense	7,72,000
Finance Costs	30,000
Depreciation and Amortization Expenses	5,00,000
Other Expenses	4,45,750
Total Expenses	48,97,750
V. Profit before Tax (III-IV)	8,26,250
VI. Provision for Tax	1,50,000
VII. Profit for the period	6,76,250

Balance Sheet as on 31.03.2024

	Note No.	Amount(₹)
I EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
Share Capital	1	30,00,000
Reserves and Surplus	2	11,76,250
(2) Non-Current Liabilities		
Long-term Borrowings (10% debentures)		3,00,000
(3) Current Liabilities		
Trade Payable		2,00,000
Other Current Liabilities	3	7,500
Short-Term Provisions (Provision for tax)	4	1,50,000
Total		48,33,750
II ASSETS		
(1) Non-Current Assets		
(a)PPE	5	31,00,000

(b)Non-current Investments (12%L T Govt. Securities)		2,00,000
(2) Current Assets		
Inventories		3,50,000
Trade Receivables	7	9,61,750
Cash and bank balances		2,22,000
Total		48,33,750

Note: Contingent Liability for Proposed Dividend (3000000 x 10%) = ₹ 3,00,000.

Notes to Accounts:

	Particulars		Amount(₹)
1.	Share Capital		
	Subscribed and Paid-up Capital		
	300000 Equity Shares of Rs. 10 each		30,00,000
2.	Reserve and Surplus		
	General Reserve		3,00,000
	Balance of Statement of Profit & Loss A/c		
	Opening Balance	3,00,000	
	Add: Profit for the period	6,76,250	
		9,76,250	
	Appropriations		
	Transfer to General Reserve	(1,00,000)	
			8,76,250
			11,76,250
3.	Other Current Liabilities		
	Interest accrued on Debentures		7,500
4.	Short Term Provision		
	Provision for Tax		1,50,000
5.	PPE		
	Buildings	1200000	
	Less: Depreciation	60000	1140000
	Machinery	2000000	
	Less: Depreciation	400000	1600000
	Motor van	400000	
	Less: Depreciation	40000	360000
			31,00,000
6.	Total depreciation		5,00,000
7.	Trade Receivables		
	Sundry Debtors	10,00,000	
	Less: Provision for Doubtful Debts	38,250	
			9,61,750
8.	Employee Benefit Expenses		
	Salaries	6,72,000	
	Contribution to P.F. and Gratuity Funds	1,00,000	
			7,72,000
9.	Finance Cost		
	Interest on Debenture	22,500	
	Outstanding Interest on Debenture	7,500	
			30,000
10.	Other Expenses		
	Discount Allowed	7,500	
	Carriage Outward	1,50,000	
	Rent and Rates	50,000	
	Advertisement	1,50,000	
	Bad Debt	20,000	
	Misc. Expenditure	30,000	
	Provision for Doubtful Debts	38,250	4,45,750

4. (a)

Secured and unsecured portion of loan

Date	Particulars	Amount(₹)
31.03.2024	Balance of Loan (Principal)	15,00,000
	Add: Outstanding Interest	1,97,112
	Total Claim	16,97,112
	Less: Value of security at that date	14,70,000
		2,27,112
	Classification: Secured portion of loan.	14,70,000
	Unsecured portion of loan	2,27,112

Outstanding interest

Quarter ending	Interest (₹)	Closing balance with Principal (₹)
31.03.2023	37,500	15,37,500
30.06.2023	38,438	15,75,938
30.09.2023	39,398	16,15,336
31.12.2023	40,383	16,55,719
31.03.2024	41,393	16,97,112
	1,97,112	

4. (b)

Statement showing Life Assurance Fund

Particulars	Amount(₹)	Amount(₹)	Amount(₹)
Balance of Fund as on 31st March, 2023			30,00,000
Add:			
Interest on securities		4,100	
Premium outstanding		2,700	
			6,800
Less:			30,06,800
Claims outstanding	13,250		
(-) Covered under re-insurance	6,000	7,250	
Bonus in reduction of premium		2,250	
			9,500
Balance of Life Assurance Fund			29,97,300

5. (a)

Bonus payable for current year = ₹.300000 + 6% of ₹.300000 = ₹ 3,18,000 No.

of employees in payroll = 450 – 8% of 450 = 414

Provision for bonus = ₹.318000 x 414 = ₹ 13,16,52,000

Note: Here, the company has a constructive obligation and not a legal obligation to increase the bonus.

This will be falling under the category of Short Term Employee Benefit.

5. (b)

Y Ltd.

Cash Flow Statement for the year ended on 31.03.2023

Particulars	Amount(₹)
Cash Flows from Operating Activities	
Net Profit before Taxation	10,00,000
Add back:	
Depreciation on Fixed Assets	2,95,000
Discount on Issue of Debentures	15,000
Interest Expenses (Debentures)	<u>1,75,000</u>
	14,85,000
Less: Profit on Sale of Investment	(10,000)
Less: Interest Income from Long-term Investments	<u>(30,000)</u>
Cash Generated from Operations Before WC Changes	14,45,000
Less: Increase in non-cash working capital(639000-586000)	
Cash Generated from Operations	<u>(53,000)</u>
Less: Income-tax Paid	13,92,000
Net Cash from Operating Activities	<u>(5,25,000)</u>
	8,67,000

6. (a)

Following are the essential characteristics or principles of a good internal check system:

(i). Division of work:

The entire task should be divided among the staff in such a way that no single person is allowed to complete the work solely by himself from the beginning to the end.

(ii). Provision of check:

There must be clear instruction that the work performed by any staff must be checked by the next staff.

(iii). Responsibility:

Responsibility of each individual must be properly defined and fixed.

(iv). Use of technology:

As far as possible, various technology enabled devices should be used to minimise human error.

(v). Rotation of employees:

A system of transfer or rotation of employees from one responsibility to another must be followed by the business.

(vi). Control over employees:

Generally, chances of frauds are high in case there is direct contact between staff and the customers. So, a manager can keep eyes in those areas to make internal check system more effective.

(vii). Supervision:

A strict supervision should be exercised to ensure that the prescribed internal checks and procedures are fully operative.

(viii). Periodical review:

The system of internal check is reviewed from time to time to introduce improvements.

6. (b)

Applicability and Conduct of Secretarial Audit:

(a) The Companies Act 2013: As per the provision of Section 204(1) of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014:

1. Every listed company;
2. Every public company having a paid-up share capital of 50 crore rupees or more; or
3. Every public company having a turnover of 250 crore rupees or more; or
4. Every company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more.

- is required to annex with its Board's Report made in terms of Section 134(3) of the Companies Act, 2013, a Secretarial Audit Report, given by a Company Secretary in practice, in Form No. MR-3.

As per Section 204(2), it shall be the duty of the company to give all assistance and facilities to the company secretary in practice, for auditing the secretarial and related records of the company.

Moreover, Section 204(4) further provides that if a company or any officer of the company or the company secretary in practice, contravenes the provisions of this section, the company, every officer of the company or the company secretary in practice, who is in default, shall be liable to a penalty of two lakh rupees.

- (b) **SEBI Regulations:** As per Regulation 24A of the SEBI(LODR) Regulations, 2015, every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity.

In addition to the above, every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within sixty days from end of each financial year.(Amended by the SEBI (Listing Obligations and Disclosure Requirements)(Second Amendment) Regulations, 2021 w.e.f. 5.5.2021).

7. (a)

Difference Between Audit Report and Audit Certificate:

Points	Auditor's Report	Auditor's Certificate
Nature	It is an expression of opinion about the financial statements.	It is a confirmation of correctness and accuracy about some matters.
Basis of audit	The report is based on facts, assumptions and estimations	The certificate is based on actual figures and facts.
Scope	The scope of audit report is large.	Its scope is limited
Advice	In audit report, there is a scope of giving constructive advice to the company.	No scope of constructive advice exists in the case of the certificate.
Guarantee	Audit report is an opinion by the auditor and does not guarantee the accuracy of the financial statements	Audit certificate is a formal statement by the auditors which guarantee the accuracy of the facts stated therein
Time of issue	The report is submitted to the appointing authority only after the audit is complete.	Certificates are issued as and when required.
Liability of auditor	As a report is merely an opinion, if it is not correct, the auditor may not be held responsible, unless he is found to be negligent to his duty.	In case of the wrong certificate, the auditor will be held responsible.

7. (b)

Role Of NFRA: The NFRA's role, it is a statutory body established by the Companies Act of 2013. Its major responsibility is ensuring that Auditing and Accounting Standards for Public Interest Entities are followed.

- The NFRA oversees the Quality Review Board. Its primary function will be quality audits of public, listed and private firms. This will allow the NFRA to contribute to the development of legislation governing accounting and auditing.
- The NFRA has the authority to investigate professional misconduct, levy fines, and potentially prevent a Practising Professional from practising for 10 years.
- The NFRA, in addition to supervising the auditing profession, advises the Central Government on accounting standards and auditing rules.
- The National Financial Reporting Authority can also investigate misbehaviour, chequebooks, papers, and oaths.

- The NFRA will be tasked with ensuring the quality of its members' services and defining criteria for auditors and auditing companies.
- The NFRA may also organize research groups, advisory committees, and task teams. These organizations are in charge of developing people's awareness of auditing standards, as well as auditor obligations and quality.
- If the auditors commit fraud, the regulator may suspend them for ten years or more. A fine of up to five times the auditor's fees can also be levied.
- The NFRA may also become a member of worldwide or regional groups of independent audit regulators. In addition to these core responsibilities, the NFRA may be in charge of specific financial companies.
- Its role has expanded to encompass the creation of standards that are applicable to all enterprises and professions. The NFRA can also undertake industry studies and enlist the assistance of other specialists.
- The NFRA may also ask additional experts to assist in the creation of accounting principles and other relevant functions. Previously, the Central Government mandated accounting standards based on ICAI recommendations. This body, however, has been superseded by the NFRA.

Alternative:

Role of NFRA:

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 –

- 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;
- may seek additional information from the Institute of Chartered Accountants of India on the recommendations received under clause (a), if required.

Further, the Authority shall consider the recommendations and additional information in such manner as it deems fit before making recommendations to the Central Government.

B. 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 require an auditor to report on its governance practices and internal processes designed to promote audit quality, protect its reputation and reduce risks including risk of failure of the auditor and may take such action on the report as may be necessary.
- (3) 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.
- (4) The Authority shall perform its monitoring and enforcement activities through its officers or experts with sufficient experience in audit of the relevant industry.
- (5) 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.
- (6) 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.

- (7) The Authority may send a separate report containing proprietary or confidential information to the Central Government for its information.
- (8) Where the Authority finds or has reason to believe that any law or professional or other standard has or may have been violated by an auditor, it may decide on the further course of investigation or enforcement action through its concerned Division.

C. 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.

If, during the investigation, the Authority has evidence to believe that any company or body corporate has not complied with the requirements under the Act or rules which involves or may involve fraud amounting to rupees one crore or more, it shall report its findings to the Central Government.

On the commencement of these rules-

- (a) the action in respect of cases of professional or other misconduct against auditors of companies referred to in rule 3 shall be initiated by Authority and no other institute or body shall initiate any such proceedings against such auditors:

Provided that no other institute or body shall initiate or continue any proceedings in such matters of misconduct where the Authority has initiated an investigation under this rule;

- (b) the action in respect of cases of professional or other misconduct against auditors of companies or bodies corporate other than those referred to in rule 3 shall continue to be proceeded with by the Institute of Chartered Accountants of India as per provisions of the Chartered Accountants Act, 1949 and the regulations made thereunder.

8. (a)

The following are the steps to be taken by an auditor of a co-operative society:

(i) General Points:

In general, while conducting audit of Co-operative society, the auditor needs to look into the following: -

- 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.

(ii) Audit of income:

He should carefully vouch the receipt of cash. Cash receipts on account of share capital should be vouched with the Register of Members. Cash received against sales should be vouched with the cash memos and invoices issued to customers as also Sales Account. Receipt of cash in respect of payment of interest and repayment of loans advanced by the society should be vouched with the loan agreements. Cash received from members towards construction of houses or their maintenance, should be vouched with the Register of Members, demands made by the society from time to time, and money receipts.

(iii) Audit of Expenditure:

- He should vouch all expenditure with reference to authorisation from the Managing Committee, particularly in the case of large capital expenditure, as also the bills received from individual parties, the money receipts obtained from them, and entries in the Bank Pass Book along with counter-foils of cheques.

- 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.

(iv) Other points:

- He should appropriately classify overdue debts for a period from six months to five years and more, and report them to the members, with a note regarding the effects these might have on the financial position of the society. He should also put a note regarding the probability of recovery of such debts.
- Similarly, he should make a special reference to the overdue amount of interest from members. Generally, interest on overdue debts should not be credited to Interest Account but to the Overdue Interest Reserve Account.
- Writing off of bad debts should be after prior authorisation from the Managing Committee of the society. According to the Maharashtra Co-operative Societies Rules, a bad debt can be written off only when it is certified to be irrecoverable by the auditor. This casts a special obligation on the auditor to ascertain whether the debt in question was created within the Rules of the society, and whether it has now really become bad and irrecoverable.

8. (b)

Provisions Relating to Appointment of First Auditor

(I) In case of a company other than a Government Company [Section 139(6)]

- The first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within thirty days from the date of registration of the company.
- In the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall appoint such auditor within ninety days at an extraordinary general meeting.
- The auditor, so appointed, shall hold office till the conclusion of the first annual general meeting.

(II) In case of a Government Company [Section 139(7)]

- In the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller and Auditor-General of India within sixty days from the date of registration of the company.
- In case the Comptroller and Auditor-General of India does not appoint such auditor within the aforesaid period, the Board of Directors of the company shall appoint such auditor within the next thirty days.
- Further, in the case of failure of the Board to appoint such auditor within the next thirty days, it shall inform the members of the company who shall appoint such auditor within sixty days at an extraordinary general meeting.
- The auditor, so appointed, shall hold office till the conclusion of the first annual general meeting.

INTERMEDIATE EXAMINATION

June 2025

P-10(CAA)

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.

*Where considered necessary, suitable assumptions may be made
and clearly indicated in the answer.*

All workings should form part of the answer.

Section-A (Compulsory)

1. Choose the correct option from the four alternatives given: 2×15=30

- (i) In which of the following ways, the balance in Securities Premium A/c cannot be used as per Section 52 of the Companies Act, 2013?
- (A) For issuing fully paid-up bonus shares
 - (B) For writing off revaluation loss on non-current assets
 - (C) For writing off discount on issue of shares
 - (D) For providing for premium on redemption of redeemable preference shares
- (ii) Capital Work-in-Progress should be shown under _____ in the Balance Sheet.
- (A) Non-current Assets
 - (B) Current Assets
 - (C) Non-current Liabilities
 - (D) Current Liabilities
- (iii) Cash Flow Statement begins with _____.
- (A) Investing Activity
 - (B) Operating Activity
 - (C) Financing Activity
 - (D) Cash Equivalent
- (iv) Which of the following is a principle of insurance?
- (A) Principle of indemnity
 - (B) Insurable interest
 - (C) Principle of uberrimae fidei
 - (D) All of the above

- (v) Partly paid-up preference shares can be redeemed.
 - (A) after the permission from Company Law Board.
 - (B) after making them fully paid up.
 - (C) after passing a special resolution.
 - (D) after the permission from the Board of Directors.
- (vi) Use of the work of another auditor is guided by _____.
 - (A) SA 600
 - (B) SA 550
 - (C) SA 500
 - (D) SA 450
- (vii) Permanent Audit File does not contain _____.
 - (A) a record of study and evaluation of internal control system.
 - (B) significant audit observations of earlier years.
 - (C) copies of management letters.
 - (D) analysis of significant ratios and trends.
- (viii) Test checking reduces the _____.
 - (A) power of the auditor
 - (B) expenses of an auditor
 - (C) work of an auditor
 - (D) liability of an auditor
- (ix) NFRA consists of which of the following?
 - (A) Accounting Standards Committee
 - (B) Auditing Standards Committee
 - (C) Enforcement Committee
 - (D) All of the above
- (x) Cost records are to be maintained as per Form _____.
 - (A) CRA - 1
 - (B) CRA - 2
 - (C) CRA - 3
 - (D) CRA - 4
- (xi) Audit report contains _____.
 - (A) details of facts
 - (B) details of frauds
 - (C) expression of opinion
 - (D) expression of suggestions

- (xii) Which of the following is not an assertion with respect to Revenue and Expenditure?
- (A) Existence
(B) Cut-off
(C) Completeness
(D) Presentation and Disclosure
- (xiii) Secretarial audit is covered under Section _____ of the Companies Act, 2013.
- (A) 204
(B) 148
(C) 139
(D) 133
- (xiv) According to the Central Co-operative Societies Act, _____ 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.
- (A) 20%
(B) 25%
(C) 30%
(D) 35%
- (xv) _____ refers to the process of conducting the audit of a single organization by more than one auditor.
- (A) Joint Audit
(B) Cost Audit
(C) Internal Audit
(D) Continuous Audit

Section-B

Answer any 5 questions out of 7 questions given below.

Each question carries 14 marks.

14×5=70

2. (a) Alpha Co. Ltd. has a paid-up equity share capital of ₹ 20,00,000 in 2,00,000 shares of ₹ 10 each. It resolved to buy-back 50,000 equity shares at ₹ 15 per share. For this purpose it issued 20,000, 12% preference shares of ₹ 10 each, at par, payable along with application. The company has to its credit ₹ 2,50,000 in Securities Premium Account and ₹ 10,00,000 in the General Reserve account. The company utilized the General Reserve. Pass the necessary journal entries.

(b) The following balances appeared in the books of B Ltd. as on 31.03.2024:

9% Debentures Account	₹ 21,00,000
Debenture Redemption Fund Account	₹ 15,00,000
9% Debenture Redemption Fund Investment Account	₹ 15,00,000
(Nominal = Cost)	

The annual contribution to the Debenture Redemption Fund was ₹ 2,10,000. The company sold its investments for ₹ 21,00,000 and redeemed the debentures on 31.03.2025. Prepare Debenture Redemption Fund Account and Debenture Redemption Fund Investment Account up to 31.03.2025.

7

3. The following Trial Balance as on 31.03.2025 has been made available to you by A Ltd.

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Buildings	34,80,000	Sales	62,40,000
Machinery	12,00,000	Outstanding Expenses	24,000
Closing Stock	10,80,000	Provision for Doubtful Debts (1.4.2024)	36,000
Loose Tools	2,76,000	Equity Share Capital	24,00,000
Purchases (Adjusted)	25,20,000	General Reserve	4,80,000
Salaries	7,20,000	Profit and Loss A/c (31.03.2024)	3,00,000
Directors' Fees	1,20,000	Creditors	11,04,000
Rent	3,12,000	Provision for depreciation:	
Depreciation	2,40,000	On Building	6,00,000
Bad Debts	72,000	On Machinery	6,60,000
10% Investment	14,40,000	14% Debentures	24,00,000
Interest accrued on investment	24,000	Interest on Debentures accrued but not due	1,68,000
Debenture Interest	3,36,000	Interest on Investments	1,44,000
Advance Tax	7,20,000	Unclaimed dividend	60,000
Sundry expenses	2,16,000		
Debtors	15,00,000		
Bank	3,60,000		
	1,46,16,000		1,46,16,000

Additional Information:

- Closing stock is more than opening stock by ₹ 9,60,000.
- Provide for doubtful debts @ 4% on Debtors.
- Make a provision for income tax @30%.

- (iv) Depreciation expense included depreciation of ₹ 96,000 on Building and that of ₹ 1,44,000 on Machinery.
- (v) The directors proposed a dividend @ 25% and transfer to General Reserve @ 10%.
- (vi) Bills Discounted but not yet matured ₹ 1,20,000.
- (vii) Authorized capital of the company is 60,000 equity shares of ₹ 100 each.

Prepare the Statement of Profit and Loss for the year ended on 31.03.2025 and a Balance Sheet as on 31.03.2025. Notes to Accounts should form part of your answer. 14

4. (a) PQR Bank Ltd. had extended the following credit lines to a small-scale industry, which had not paid any interest during the Year 2024–2025.

Particulars	Term Loan	Export Credit
Balance outstanding on 31.03.2025	₹ 70 lakhs	₹ 60 lakhs
DICGC/ECGC cover	40%	50%
Securities held	₹ 30 lakhs	₹ 20 lakhs
Realizable value of securities	₹ 20 lakhs	₹ 16 lakhs

Compute necessary provisions to be made for the year ended on 31.03.2025. 7

- (b) The Life Insurance Fund of Prakash Life Insurance Company Limited was ₹ 34,00,000 on 31st March, 2025 and disclosed a Net Liability of ₹ 28,80,000. An interim bonus of ₹ 40,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward ₹ 1,10,000 and to divide the balance between the policy holders and the shareholders.

Show:

- (i) The Valuation Balance Sheet.
- (ii) The Net Profit for the Two-Year Period, and
- (iii) The Distribution of the Profits. 7

5. (a) The following information is available from Star Ltd. as on 31.03.2025:

Net profit for the current year: ₹ 4,00,00,000.

Number of equity shares outstanding: 2,00,00,000.

Number of 12% convertible debentures of ₹ 100 each: 4,00,000

Each debenture is convertible into 10 equity shares.

Tax rate applicable is 30%.

Compute (a) Basic EPS and (b) Diluted EPS. 7

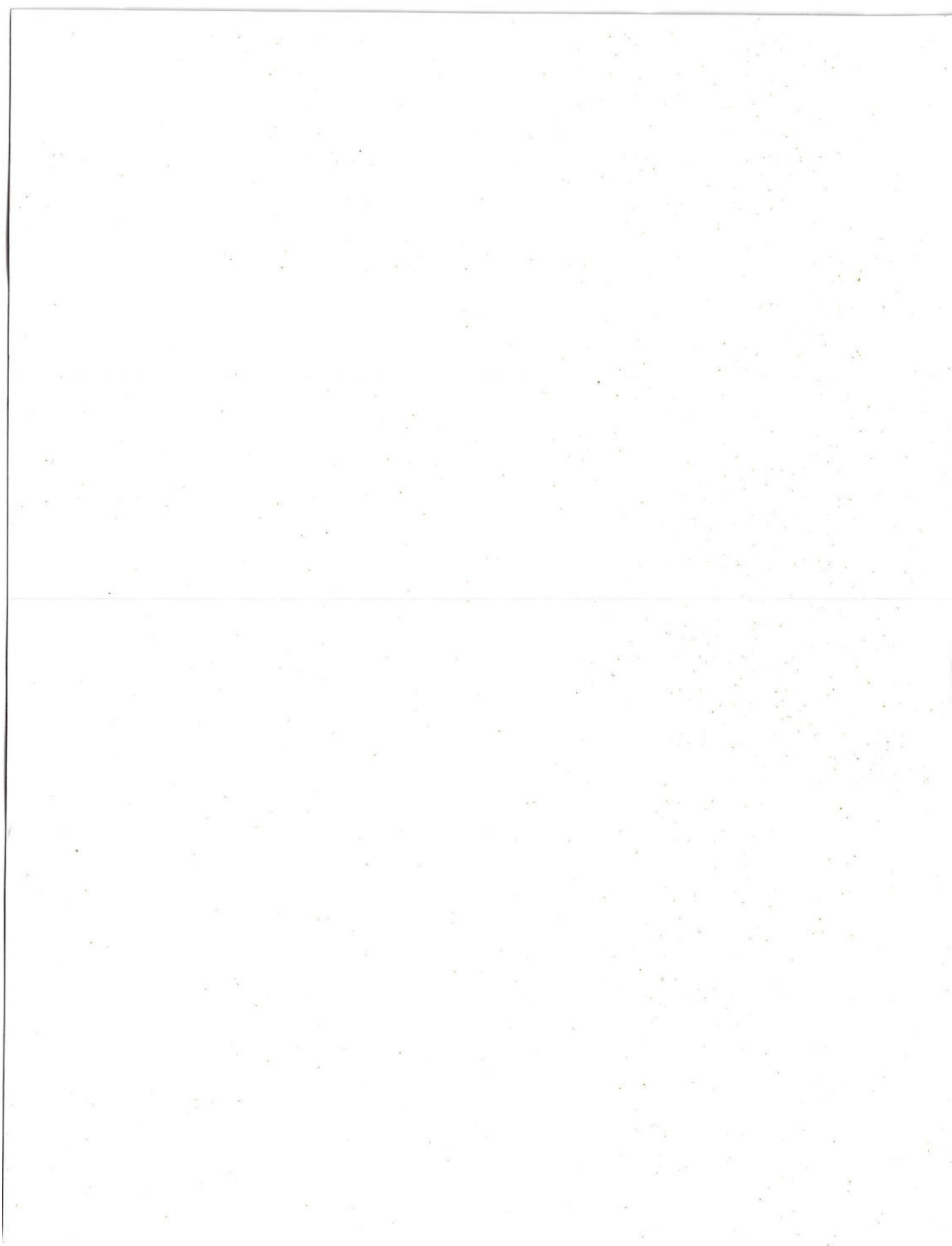
(b) The following information has been provided by Apex Ltd. for the year ended on 31.03.2025.

- (i) Sales for the year ₹ 48,00,000 entirely made in cash. All purchases were on credit.
- (ii) Cost of goods sold was 75% of the sales.
- (iii) Trade payables on 31.03.2025 was ₹ 1,00,000 more than the balance on 31.03.2024.
- (iv) Closing inventory was higher than the opening inventory by ₹ 50,000.
- (v) Operating expense of ₹ 3,60,000 were paid during the year.
- (vi) Taxes paid during the year were ₹ 1,50,000.
- (vii) The company paid interest of ₹ 1,20,000 during the year.
- (viii) The company acquired a building for ₹ 4,00,000 and bought a new furniture for ₹ 2,00,000 during the year.
- (ix) Dividend was received on investment for ₹ 10,000.
- (x) Cash and cash equivalent on 01.04.2024 was ₹ 40,000
- (xi) Cash and cash equivalent on 31.03.2025 was ₹ 70,000

You are required to prepare a Cash Flow Statement for the year ended on 31.03.2025 as per AS 3. 7

6. (a) Discuss the concept of the Tax Audit with reference to Section 44AB of the Income Tax Act, 1961. 7
- (b) Demonstrate the reporting requirements of Cost Audit as per CRA -3 guided by Companies (Cost Records and Audit) Rules, 2014. 7
7. (a) Examine the reporting requirements as per Companies (Auditor's Report) Order, 2020 with respect to the following:
- (i) Acceptance of deposits [Clause 3(v)]
 - (ii) Statutory dues [Clause 3(vii)]
 - (iii) Reporting fraud [Clause 3(xi)] 7
- (b) Briefly discuss the constitution and structure of NFRA. Examine the functions and duties of NFRA. 7

8. (a) Prepare a list to show how you will conduct the Audit of Educational Institutions. 7
- (b) Inspect the rights of a company auditor as per Companies Act, 2013. 7
-



PAPER – 10 : CORPORATE ACCOUNTING AND AUDITING

SUGGESTED ANSWERS

SECTION-A

1.

- (i) B
- (ii) A
- (iii) B
- (iv) D
- (v) B
- (vi) A
- (vii) C
- (viii) C
- (ix) D
- (x) A
- (xi) C
- (xii) A
- (xiii) A
- (xiv) B
- (xv) A

SECTION- B

2. (a)

**In the Books of Alpha Co. Ltd.
Journal Entries**

Date	Particulars	Debit (₹)	Credit (₹)
	Bank A/c	Dr. 2,00,000	
	To Preference Share Application A/c (Application money on 20,000 preference shares at ₹10 each)		2,00,000
	Preference Share Application A/c	Dr. 2,00,000	
	To 12%Preference Share Capital A/c (Transfer of application money to preference share Capital account on shares being allotted)		2,00,000
	Equity Share Capital A/c	Dr. 5,00,000	
	Securities Premium A/c	Dr. 2,50,000	
	To Equity Shareholders A/c (Amount due to equity shareholders consequent Upon buy-back of 50,000 Shares at ₹ 15)		7,50,000
	Equity Shareholders A/c	Dr. 7,50,000	
	To Bank A/c (Payment to equity shareholders for amount due to them)		7,50,000
	General Reserve A/c	Dr. 3,00,000	
	To Capital Redemption Reserve A/c (Transfer of the nominal value of shares bought Back out of profit)		3,00,000

2. (b)

Debenture Redemption Fund A/c

Dr.			Cr.		
Date	Particulars	D	Date	Particulars	D
31.3.2025	To General Reserve A/c [Transfer Bal/Fig.]	24,45,000	01.4.2024	By Balance b/d	15,00,000
			31.3.2025	By Interest on Debenture Redemption Fund Investment A/c [15,00,000x 9%]	1,35,000
				By Statement of Profit & Loss [Annual contribution]	2,10,000
				By Debenture Redemption Fund Investment A/c [Profit on sale]	6,00,000
		24,45,000			24,45,000

9% Debenture Redemption Fund Investment A/c

Dr.			Cr.		
Date	Particulars	D	Date	Particulars	D
01.4.2024	To Balance b/d.	15,00,000	31.3.2025	By Bank A/c [Sale proceeds]	21,00,000
31.3.2025	To Debenture Redemption Fund A/c [Profit on sale transferred WN: 1]	6,00,000			
		21,00,000			21,00,000

Sale of Debenture Redemption Fund Investment

Sale proceeds of Debenture Redemption Fund Investment	2100000
(-) Cost of Debenture Redemption Fund Investment sold	1500000
Profit on sale of Debenture Redemption Fund Investment	6,00,000

3.

A Ltd.

Statement of Profit or Loss for the year ended 31st March, 2025

Particulars	Note No.	D
I. Revenue from operations (Sales)		62,40,000
II. Other income (interest on investment)		1,44,000
III. Total Revenue [I + II]		63,84,000
IV. Expenses:		
Cost of purchase	7	34,80,000
Changes in inventories		(9,60,000)
Employee Benefits Expense (Salaries)		7,20,000
Finance Costs (debenture interest)		3,36,000
Depreciation and Amortization Expenses	8	2,40,000
Other Expenses	9	7,44,000
Total Expenses		45,60,000
V. Profit before Tax (III-IV)		18,24,000
VI. Tax Expenses @ 30%		5,47,200
VII. Profit for the period		12,76,800

A Ltd.
Balance Sheet as on 31.03.2025

Particulars	Note No.	D
I EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
Share Capital	1	24,00,000
Reserves and Surplus	2	20,56,800
(2) Non-current Liabilities		
Long-term Borrowings (14% debentures)		24,00,000
(3) Current Liabilities		
Trade Payable (Sundry Creditors)		11,04,000
Other Current Liabilities	3	2,52,000
Short-Term Provisions (Provision for Tax)		5,47,200
Total		87,60,000
II ASSETS		
(1) Non-current Assets		
(a)PPE		
Tangible Asset	4	34,20,000
(b) Non-current Investments		14,40,000
(2) Current Assets		
Inventories	5	13,56,000
Trade Receivables	6	14,40,000
Cash and Cash equivalent (Bank Balance)		3,60,000
Short Term Loans and Advances (Advance Payment of Tax)		7,20,000
Other Current Assets (Interest accrued on investments)		24,000
Total		87,60,000
Note:		
(1) Contingent Liability for bills discounted but not yet matured D 120,000.		
(2) Contingent Liability for Proposed Dividend = 24,00,000 x 25% = D 6,00,000		

Notes to Accounts supporting the B/S and Statement of P/L:

	D	D
1. Share Capital		
Authorized Capital		
60,000 Equity Shares of D 100 each		60,00,000
Issued Capital		
24000 Equity Shares of D100 each		24,00,000
Subscribed and Paid-up Capital		
24000 Equity Shares of D 100 each		24,00,000
2. Reserve and Surplus		
General Reserve [D 480000 + D127680]		6,07,680
Balance of Statement of Profit & Loss Account		
Opening Balance	3,00,000	
Add: Profit for the period	12,76,800	
	15,76,800	

	Approp: Transfer to General Reserve @ 10%	(1,27,680)	14,49,120
			20,56,800
3.	Other Current Liabilities		
	Unclaimed Dividend		60,000
	Outstanding Expenses		24,000
	Interest accrued on Debentures		1,68,000
			2,52,000
4.	Tangible Assets		
	Buildings	34,80,000	
	Less: Provision for Depreciation	6,00,000	28,80,000
	Plant and Equipment	12,00,000	
	Less: Provision for Depreciation	6,60,000	5,40,000
			34,20,000
5.	Inventories		
	Closing Stock of Finished Goods	10,80,000	
	Loose Tools	2,76,000	13,56,000
6.	Trade Receivables		
	Sundry Debtors	15,00,000	
	Less: Provision for Doubtful Debts	60,000	14,40,000
7.	Cost of purchase:		
	Adjusted purchase	25,20,000	
	Add: (Closing stock - Opening Stock)	9,60,000	34,80,000
8.	Depreciation and Amortization:		
	On Building	96,000	
	On Machinery	1,44,000	2,40,000
9.	Other Expenses		
	Rent		3,12,000
	Directors' Fees		1,20,000
	Bad Debts		72,000
	Provision for Doubtful Debts [(4% of D 15,00,000) less. D 36,000]		24,000
	Sundry Expenses		2,16,000
			7,44,000

4. (a)

Calculation for unsecured portion of loan (D in lakhs)

Particulars	Term loan	Export credit
Balance outstanding on 31.3.2025	70.00	60.00
Less: Realizable value of Securities	20.00	16.00
	50.00	44.00
Less: DICGC cover @ 40%	20.00	-
ECGC cover @ 50%	-	22.00
Unsecured balance	30.00	22.00

Required Provision:(D in lakhs)

Assuming the balance was outstanding upto one year:

Particulars	Term loan	Export credit
100%* for unsecured portion	30.00	22.00
25% for secured portion	5.00	4.00
Total provision required	35.00	26.00

Alternatively:

Assuming the balance was outstanding one year to three year:

Particulars	Term loan	Export credit
100%* for unsecured portion	30.00	22.00
40% for secured portion	8.00	6.40
Total provision required	38.00	28.40

Alternatively:

Assuming the balance was outstanding more than three year:

Particulars	Term loan	Export credit
100%* for unsecured portion	30.00	22.00
100% for secured portion	20.00	16.00
Total provision required	50.00	38.00

* The above solution has been provided based on the Norms for Provisions on NPA as per the Master Circular Issued by RBI dated 01.04.2024.

4. (b)

In the Books of Prakash Life Insurance Company Limited

Valuation Balance Sheet as on 31st March, 2025

Liabilities	(₹)	Assets	(₹)
Net Liability	28,80,000	Life Assurance Fund	34,00,000
Net Profit	5,20,000		
	34,00,000		34,00,000

Net Profit for the Two-Year Period	(₹)
Profit as per Valuation Balance Sheet	5,20,000
Add: Interim Bonus paid during the Previous Two Years	40,000
Net Profit	5,60,000
Distribution of the Profits	
Net Profit	5,60,000
Less: Amount proposed to be carried forward	1,10,000
Balance	4,50,000
Share of Policyholders (95% of ₹ 4,50,000)	4,27,500
Less: Interim Bonus paid	40,000
Amount due to Policyholders	3,87,500
Share of Shareholders (5% of ₹ 4,50,000)	22,500

5. (a)

Calculation of Basic and Diluted EPS

Particulars	Basic EPS	Diluted EPS
	D	D
Net Profit for the year	4,00,00,000	4,00,00,000
Adjustment for after tax interest expense on conversion of debenture [48,00,000 x (1 – 0.30)]	--	33,60,000
(A)	4,00,00,000	4,33,60,000
No. of Equity Shares outstanding	2,00,00,000	2,00,00,000
No. of potential equity shares (400000 x 10)		40,00,000
Weighted average no. of shares (B)	2,00,00,000	2,40,00,000
EPS (A/ B)	2.00	1.81

5. (b)

Cash Flow Statement for the year ended on 31.03.2025

Particulars	D	D
A. Cash flow from operating activities:		
Sales (all in cash)	4800000	
Less: Payment to suppliers (Note)	<u>3550000</u>	
	1250000	
Less: Operating expenses	<u>360000</u>	
	890000	
Less: Income Tax paid	<u>150000</u>	
		740000
B. Cash flow from investing activities:		
Purchase of building	(400000)	
Purchase of furniture	(200000)	
Dividend received on investment	<u>10000</u>	(590000)
C. Cash flow from financing activities:		
Interest paid		<u>(120000)</u>
(A+B+C)		30000
Add: Opening cash and cash equivalent		<u>40000</u>
Closing cash and cash equivalent		<u>70000</u>

Note: Payment to suppliers:

COGS = 75% of Sales of D 48,00,000 = D 36,00,000

COGS = Op. Stock + Purchase - Cl. Stock

Or, 3600000 = Op. Stock + Purchase – (Op. Stock + 50,000)

Or, Purchase = 36,50,000

Payment to Creditors = Op. Balance + Credit purchase – Cl. Balance

Or, Payment to Creditors = Op. Balance + 36,50,000 – (Op. Balance + 100000)

Or, Payment to Creditors = 35,50,000

6. (a)

Tax Audit can be defined as “an examination of financial records to assess correctness of calculation of taxable profit to ensure compliance with provisions of the Income Tax Act and also ensure of fulfilment of conditions of deductions under Income Tax Act.”

Tax Audit is required in addition to the Financial Audit since taxable income largely differs from accounting profit because of various allowances, disallowances, deductions and exemptions suggested under tax laws.

In India the Income Tax Act 1961 contains a number of provisions requiring Tax Audit of an entity. Section 44AB gives the provisions relating to the class of tax payers who are required to get their accounts audited from chartered accountant.

The audit under Section 44AB aims to ascertain the compliance of various provisions of the Income Tax Law and the fulfilment of other requirements of the Income Tax Law.

The prime objective tax audit is to stop tax evasion.

6. (b)

As per Companies (Cost Records and Audit) Rules 2014 as amended up to date, a cost auditor needs to report the following in CRA-3:

- (a) Whether he has obtained all the information and explanations, which to the best of his knowledge and belief were necessary for the purpose of the audit.
- (b) Whether in his opinion, proper cost records, as per rule 5 of the Companies (Cost Records and Audit) Rules, 2014 have been maintained by the company in respect of its product(s)/ service(s) under reference.
- (c) Whether in his opinion, proper returns adequate for the purpose of the cost audit have been received from the branches not visited by him.
- (d) Whether in his opinion, and to the best of his information, the said books and records give the information required by the Companies Act, 2013, in the manner so required.
- (e) Whether in his opinion, the company has adequate system of internal audit of cost records which to his opinion is commensurate to its nature and size of the business.
- (f) Whether in his opinion, information, statements in the annexure to the cost audit report give a true and fair view of the cost of production of product(s)/rendering of service(s), cost of sales, margin and other information relating to product(s)/service(s) under reference.
- (g) Whether detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product /service of the company duly audited and certified by him are kept in the company.

7. (a):

The reporting requirements as per Companies (Auditor's Report) Order, 2020 is as follows:

(i) 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 there under, where applicable, have been complied with. If not, the nature of contraventions should be stated. If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not.

(ii) Statutory Dues [Clause 3 (vii)]

- (a) CARO 2020, specifically clause 3(vii), mandates auditors to report on the company's compliance with statutory dues. This includes verifying if the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income tax, goods and services tax (GST) 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 goods and services tax (GST) have not been deposited on account of any dispute, then the auditor must disclose the amount involved and the forum where dispute is pending shall be mentioned.

(iii) 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;

7. (b)

Constitution of NFRA

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.

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.

8. (a)

The special steps involved in the audit of an educational institution are the following:

- (i) Examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed thereunder.
- (ii) Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, especially the decisions as regards the operation of bank accounts and sanctioning of expenditure.
- (iii) **Verify the 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.
- (iv) **Verify the 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.
- (v) **Verify the Other Fees and receipts:** Verify the collection of other fees such as library fees, 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. Verify grants received from Government or other organisations. Ensure that donation received, if any, has been acknowledged and recorded properly in the books of accounts. Check income from letting out institutional properties based on the counterfoil of receipts issued to parties.
- (vi) 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 deductibles from salary, such as Provident Fund Contribution and Income Tax deducted at source, have been deposited with the authority concerned in due time
- (vii) Examine whether all the expenditure associated with special events has been accounted for by matching the expenditure in this regard against the amount obtained from any organisation or sanctioned by the institution itself. Vouch all the regular expenses and purchase of fixed assets, expenditure for construction of college buildings based on the available vouchers, resolution of the meetings of purchase/finance committee.
- (viii) Vouch the refund of Caution Deposit from the students based on receipts and accounting records. Examine the payments on account of hostel facilities including repairs and maintenance of hostel building, electricity charges, purchase of food items etc.
- (ix) **Verification of Assets and Liabilities:** Conduct physical verification of tangible fixed assets as shown in the Fixed Asset Register. Verify investments based on Investment Register. Check whether depreciation and amortization has been provided as per the policy adopted. 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.
- (x) **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.

8. (b)

As per the Companies Act 2013, an auditor has the following rights:

- i.** Right to Inspect Books of Accounts and Vouchers Every auditor of a company shall have the right of access at all times to the books of account and vouchers of the company kept at the registered office of the company or at any other place.
- ii.** Right to Obtain Information and Explanations The auditor is also entitled to ask for such information and explanation as he may consider necessary for the performance of his duties as the auditor from the officers of the company [Section 143(1)].
- iii.** Right to Inspect Branch Offices and Branch Accounts He is also entitled to inspect the accounts of any branch office [Section 143(8)].
- iv.** Right to Receive the Report of Branch Audit from the Branch Auditor In case a separate auditor has been appointed to audit the branch accounts, the company auditor has the right to receive the branch audit report from the branch auditor. [Section 143(8)].
- v.** Right to Receive Notices and Attend General Meetings The company auditor is also entitled to receive all notices of, and other communications relating to, any general meeting and to attend such meetings and being heard [Section 146].
- vi.** Right to Sign the Audit Report and Other Documents The company auditor also has the right to sign the auditor's report or sign or certify any other document of the company in accordance with the provisions of Section 141(2) [Section 145].
- vii.** Right to Have Audit Report Read at the AGM The company auditor has the right to have the report read before the company in the General Meeting and the same shall be open to inspection by any member of the company [Section 145].
- viii.** Right to Attend the Meeting of the Audit Committee He also has a right to attend the meetings of the Audit Committee and to be heard in the meetings when the Committee considers the auditor's report.
- ix.** Right to be Indemnified The auditor of a company shall also have the right to be indemnified for any expenses incurred by him in defending himself in case the judgement in any law suit (whether civil or criminal) against the company goes in favour of the auditor.

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