

INTERMEDIATE EXAMINATION
December 2023

COMPANY ACCOUNTS AND AUDIT

P-12(CAA)
Syllabus 2016

Time Allowed: 3 Hours

Full Marks: 100

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

*All working notes must form part of the answer.
Wherever required, the candidate may make suitable assumptions and
state them clearly in the respective answers.*

Section-A

Company Accounts

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

1. (a) Choose the correct alternative in each of the following cases:

1×6=6

- (i) The discount on reissue of forfeited equity shares is debited to _____
(A) General Reserve A/c
(B) Forfeited Shares A/c
(C) Capital Reserve A/c
(D) Discount on Issue of Shares A/c
- (ii) Deferred Tax Liabilities is a part of _____ as per Schedule III of Companies Act, 2013.
(A) Current Liabilities
(B) Non- Current Liabilities
(C) Either of (A) or (B)
(D) None of (A) and (B)
- (iii) In which of the following schemes retirement benefit is determined by contribution at agreed rate to the fund together with earnings thereof?
(A) Defined Contribution plan
(B) Defined Benefit plan
(C) Special Benefit plan
(D) None of the above
- (iv) Issue of fully paid-up Bonus shares
(A) reduces the shareholders' fund.
(B) increases the shareholders' fund.
(C) does not change the shareholders' fund.
(D) increases the total liability.

Please Turn Over

- (v) Which of the following is a part of cash flow from financing activities of manufacturing company?
- Proceeds from sale of old machinery
 - Collection from customers
 - Dividend received from a foreign company
 - Interest paid on a partly convertible debenture
- (vi) Which of the following is not a part of General Ledger of a Banking Company?
- Control Accounts of all personal ledger
 - Profit and Loss Account
 - Revenue and Expense Accounts
 - Assets Account

(b) Match the following items in Column 'I' with items in Column 'II'. 1×4

Column 'I'		Column 'II'	
1.	Translation of financial statements	(A)	AS 19
2.	Implicit interest rate	(B)	Accounts of Insurance Companies
3.	Advance against depreciation	(C)	AS 11
4.	Actuarial Valuation	(D)	Accounts of Electricity Companies

- (c) State whether the following statements are true or false. 1×4
- As per Section 55 of the Companies Act, 2013, a company cannot issue irredeemable preference shares.
 - Every banking company in India is required to transfer at least 25% of its profit to Reserve Fund.
 - Operating Lease is a lease which does not transfer substantially all the risk and reward incidental to ownership.
 - As per Schedule III of Companies Act, 2013, audit fee is shown under Employee Benefit Expenses in the Statement of Profit and Loss.

2. (a) The capital structure of a company consists of 1,20,000 Equity shares of ₹ 10 each fully paid up and 4,000, 6% Preference shares of ₹ 100 each fully paid up. The company has ₹ 2,80,000 in General reserve, ₹ 40,000 as Profit and Loss balance (Cr.), ₹ 80,000 in Investment Allowance Reserve (not available for distribution of dividend) and ₹ 44,000 in Securities Premium.
- The preference shares are due for redemption at a premium of 10%. The company decides to make a fresh issue of equity shares at par and to use profits and reserves in a manner so that a minimum balance of ₹ 40,000 is maintained in General Reserve. Show the journal entries to give effect of the above arrangements. Assume that the company does not belong to the prescribed class of companies recognized for the purpose of redemption.

(b) P. Ltd. leased a machine to Q. Ltd. on the following terms:

(i) Fair value of the machine	₹ 72 lakhs
(ii) Lease term	5 years
(iii) Lease rental per annum	₹ 12 lakhs
(iv) Guaranteed residual value	₹ 2.40 lakhs
(v) Expected residual value	₹ 4.50 lakhs
(vi) Internal rate of return	15%

Discounted factors at 15% for Rupee 1, 1st year to 5th year, are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.
Ascertain Unearned Finance Income.

3. (a) Following are the summarized Balance Sheets of Y Ltd. on 31.03.2022 and 31.03.2023 (in ₹):

Particulars	31.03.2022 (₹)	31.03.2023 (₹)
I. Equity and Liabilities:		
(i) Shareholders' Fund		
Equity Share Capital (₹)	20,00,000	20,00,000
Balance of Profit and Loss (Cr.)	21,00,000	26,00,000
(ii) Non-current Liabilities		
Long Term Bank Loan	20,00,000	21,20,000
(iii) Current Liabilities		
Trade Payables	7,00,000	8,00,000
	68,00,000	75,20,000
II. Assets:		
(i) Non-current		
Plant, Property and Equipment	34,00,000	40,00,000
Non-current Investments	4,00,000	6,00,000
(ii) Current Assets		
Inventories	13,60,000	14,00,000
Trade Receivables	15,20,000	13,80,000
Cash and Cash Equivalents	1,20,000	1,40,000
	68,00,000	75,20,000

The summarized Statement of Profit and Loss for the year ended 31.03.2023 (in ₹) is also given below.

Sales	83,60,000
Less: Cost of Sales	54,40,000
Gross Profit	29,20,000
Less: Operating Expenses (Including Depreciation ₹ 2,20,000)	13,60,000
	15,60,000
Add: Non-operating Incomes (dividend received)	1,00,000
	16,60,000
Less: Interest paid	2,80,000
Profit before Tax	13,80,000
Less: Income Tax	5,20,000
Profit after Tax	8,60,000
Add: Opening balance	21,00,000
	29,60,000
Less: Dividend	3,60,000
Closing Balance	26,00,000

Prepare a Cash Flow Statement for the year ended on 31.03.2023 as per AS 3. 8

(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:

- Date of Commercial Operation of COD = 1st April, 2023
- Approved Opening Capital Cost as on 1st April, 2023 = ₹ 20,00,000
- Return of equity to be computed @ 14% p.a.
- Additional Capital Expenditure (Allowed) is as follows:

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

4. The following is the Trial Balance of N Ltd. as on 31.03.2023.

Debit Balances	(₹)	Credit Balances	(₹)
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 (01.04.2022)	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 (01.04.2022)	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	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 to doubtful debts @ 4% on Debtors.
- Make a provision for income tax @ 30%.
- Depreciation expense included depreciation of ₹ 96,000 on Building and that of ₹ 1,44,000 on Machinery.
- The directors proposed a dividend @ 25% of paid-up capital and a transfer to General Reserve @ 10% of profit after tax.
- Bills Discounted but not yet matured ₹ 1,20,000.
- Authorized capital of the company is 60,000 equity shares of ₹ 100 each. You are required to prepare Statement of Profit and Loss for the year ending on 31st March, 2023 and a Balance Sheet as at that date (Notes to Accounts should form part of your answer).

5. Write short notes on *any three* out of the following:

- (a) Advantages provided by Accounting Standards
- (b) Accounting Treatment for forfeiture of shares by company
- (c) Different types of bonus paid by Insurance Companies
- (d) Disclosure Requirement under Schedule III of Companies Act, 2013, for Inventories

Section-B (Audit)

Answer Question No. 6 which is compulsory and *any three* from Question No. 7, 8, 9 and 10.

1×6 = 6

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

(i) Which of the following statements is true?

- (A) Internal check is an independent appraisal.
- (B) Internal check is an allocation of duties among the staff in such a way that it eliminates the chances of any duplicity of work.
- (C) Internal check is an alternative to internal audit.
- (D) Internal check is a reactive process.

(ii) Which of the following is not a basic principle of governing an audit as per SA 200?

- (A) Integrity
- (B) Confidentiality
- (C) Subjectivity
- (D) Audit evidence

(iii) Audit working paper is the property of the _____.

- (A) Auditor
- (B) Government
- (C) Client
- (D) Registrar of Companies

(iv) Which of the following is not a content of audit report as per SA 700 (Revised)?

- (A) Addressee
- (B) Auditor's opinion
- (C) Basis of opinion
- (D) Management discussion and analysis

(v) Auditor's duty to report fraud to the Central Government is guided by _____ of the Companies Act, 2013.

(A) Section 139(1)

(B) Section 141(3)

(C) Section 143(12)

(D) Section 148(1)

(vi) The audit report where an Auditor gives an opinion on the truth and fairness of financial statements, subject to certain reservations, is known as _____.

(A) Unqualified Audit Report

(B) Qualified Audit Report

(C) Adverse Audit Report

(D) Disclaimer of Opinion

(b) Match the following items in Column 'I' with items in Column 'II':

1×4=4

	Column I		Column II
1.	SA 530	A	Audit Programme
2.	Procedure to be followed in verification of each item	B	Audit Documentation
3.	Matters observed during the course of audit	C	Audit Sampling
4.	SA 230	D	Audit Note Book

(c) State whether the following statements are true or false:

1×4=4

(i) Casual vacancy in the office of a Cost Auditor is filled by shareholders only.

(ii) An internal auditor can be removed from his office by the Board of Directors.

(iii) Copies of management letters is a part of permanent audit file.

(iv) Cut off procedures are generally applied to trading transactions.

7. (a) Distinguish between Statutory Audit and Government Audit.

(b) Discuss the basic elements of internal control system of an organization.

8. (a) Discuss the provisions regarding appointment of the first auditor of a company.

(b) Discuss the provisions of Section 144 of the Companies Act, 2013 with respect to an auditor prohibited from rendering certain services.

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9. (a) With reference to the Company's (Cost Rules and Audit) Rules, 2014, as amended, discuss how remuneration of Cost Auditor is fixed. 6
- (b) Briefly state the factors to be looked into by an auditor before issuing an Unqualified Report. 6

4×3=12

10. Write short notes on any three out of the following:

- (a) Advantages of Joint Audit
- (b) Features of inventory having impact on audit procedures
- (c) Auditor's duty regarding audit of income of a trust
- (d) Audit of reissue of forfeited shares
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