

**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**

| <b>Date</b> | <b>Particulars</b>                                                                                                                 | <b>Debit (₹)</b> | <b>Credit (₹)</b> |
|-------------|------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------|
|             | Bank A/c                                                                                                                           | Dr. 2,00,000     |                   |
|             | To Preference Share Application A/c<br>(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<br>(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<br>(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<br>(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<br>(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                                   | ₹         | Date      | Particulars                                                                   | ₹         |
| 31.3.2025 | To General Reserve A/c<br>[Transfer Bal/Fig.] | 24,45,000 | 01.4.2024 | By Balance b/d                                                                | 15,00,000 |
|           |                                               |           | 31.3.2025 | By Interest on Debenture<br>Redemption Fund Investment<br>A/c [15,00,000x 9%] | 1,35,000  |
|           |                                               |           |           | By Statement of Profit & Loss<br>[Annual contribution]                        | 2,10,000  |
|           |                                               |           |           | By Debenture Redemption Fund<br>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                                                               | ₹         | Date      | Particulars     | ₹         |
| 01.4.2024 | To Balance b/d.                                                           | 15,00,000 | 31.3.2025 | By Bank A/c     | 21,00,000 |
| 31.3.2025 | To Debenture Redemption<br>Fund A/c [Profit on sale<br>transferred WN: 1] | 6,00,000  |           | [Sale proceeds] |           |
|           |                                                                           | 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 31<sup>st</sup> March, 2025**

| Particulars                               | Note No. | ₹          |
|-------------------------------------------|----------|------------|
| 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. | ₹         |
|-------------------------------------------------------------------------------|----------|-----------|
| <b>I EQUITY AND LIABILITIES</b>                                               |          |           |
| (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 |
| <b>II ASSETS</b>                                                              |          |           |
| (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<br>(Advance Payment of Tax)                     |          | 7,20,000  |
| Other Current Assets<br>(Interest accrued on investments)                     |          | 24,000    |
| Total                                                                         |          | 87,60,000 |
| Note:                                                                         |          |           |
| (1) Contingent Liability for bills discounted but not yet matured ₹ 120,000.  |          |           |
| (2) Contingent Liability for Proposed Dividend = 24,00,000 x 25% = ₹ 6,00,000 |          |           |

**Notes to Accounts supporting the B/S and Statement of P/L:**

|    |                                               | ₹         | ₹         |
|----|-----------------------------------------------|-----------|-----------|
| 1. | Share Capital                                 |           |           |
|    | Authorized Capital                            |           |           |
|    | 60,000 Equity Shares of ₹ 100 each            |           | 60,00,000 |
|    | Issued Capital                                |           |           |
|    | 24000 Equity Shares of ₹ 100 each             |           | 24,00,000 |
|    | Subscribed and Paid-up Capital                |           |           |
|    | 24000 Equity Shares of ₹ 100 each             |           | 24,00,000 |
| 2. | Reserve and Surplus                           |           |           |
|    | General Reserve [ ₹ 480000 + ₹ 127680]        |           | 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 ₹ 15,00,000) less. ₹ 36,000] |            | 24,000    |
|    | Sundry Expenses                                                   |            | 2,16,000  |
|    |                                                                   |            | 7,44,000  |

4. (a)

**Calculation for unsecured portion of loan (₹ 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:(₹ 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 31<sup>st</sup> 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 |
| <b>Distribution of the Profits</b>                    |          |
| 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<br>₹ | Diluted EPS<br>₹ |
|--------------------------------------------------------------------------------------------------|----------------|------------------|
| Net Profit for the year                                                                          | 4,00,00,000    | 4,00,00,000      |
| Adjustment for after tax interest expense on conversion of debenture<br>[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                             | ₹              | ₹               |
|-----------------------------------------|----------------|-----------------|
| 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 ₹ 48,00,000 = ₹ 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.