

**INTERMEDIATE EXAMINATION
Syllabus 2016**

Paper 12: COMPANY ACCOUNTS & AUDIT (CAA)

Time Allowed: 3 Hours

Full Marks: 100

**There are Sections A, B, C and D to be answered subject to instructions given against each.
(Time allotted for Sections A and B shall be limited to a maximum of 50 minutes)**

		Section A You are required to answer all the questions. Each question carries 1 mark. Instructions: Each question is followed by 4 Answer choices and only one is correct. You are required to select the choice which according to you represents the correct answer.	20 × 1 = 20 Marks
1.	a.	According to Section 52 of the Companies Act, 2013 the amount in the Securities Premium A/c cannot be used for the purpose of	
	(i)	Issue of fully paid bonus shares	
	(ii)	Writing off losses of the company	A
	(iii)	For purchase of own securities	
	(iv)	Writing off preliminary expenses of the company	
	b.	Borrowing Cost is covered under which of the following Accounting Standards?	
	(i)	AS- 11	
	(ii)	AS- 12	
	(iii)	AS- 16	A
	(iv)	AS- 19	
	c.	Which of the following statement is true?	
	(i)	A debenture holder is an owner of the company	
	(ii)	A debenture holder can get his money back only on the liquidation of the company	
	(iii)	A denture issued at a discount can be redeemed at a premium	A
	(iv)	Debentures cannot be redeemed during the life time of the company	
	d.	Which of the following is not a mandatory financial statement of a General Insurance Company as per IRDA regulations?	
	(i)	Revenue Account	
	(ii)	Profit and Loss Account	
	(iii)	Balance Sheet	
	(iv)	Cash Flow Statement	A
	e.	In case of an electricity company, depreciation on assets is calculated based on the rates notified by	
	(i)	Companies Act 2013	
	(ii)	State Electricity Commission	
	(iii)	Central Electricity Regulatory Commission	A
	(iv)	Income Tax Act 1961	
	f.	Objective of an Audit is to formulate an overall opinion on	

	(i)	Cost Statement		
	(ii)	Financial Statement	A	
	(iii)	Books of Accounts		
	(iv)	None of these		
	g.	The most comprehensive type of audit is the _____ system audit, which examines suitability and effectiveness of the system as a whole.		
	(i)	Quantity		
	(ii)	Quality	A	
	(iii)	Preliminary		
	(iv)	Sequential		
	h.	_____ is a relative term.		
	(i)	Audit		
	(ii)	Disclosure		
	(iii)	Materiality	A	
	(iv)	Accounting		
	i.	Misappropriation of goods is a _____.		
	(i)	Fraud	A	
	(ii)	Clerical error		
	(iii)	Error of principle		
	(iv)	Compensating error		
	j.	An audit in which auditor reviews the performance of an entity is termed as _____.		
	(i)	Partial audit.		
	(ii)	Interim audit		
	(iii)	Operational audit	A	
	(iv)	Internal audit		
	k.	The function of internal audit is meant for		
	(i)	Dearth of Staff	A	
	(ii)	Dearth of time		
	(iii)	Dearth of time and funds		
	(iv)	Dearth of funds		
	l.	The assets protection is possible through		
	(i)	Internal Audit	A	
	(ii)	Internal Control		
	(iii)	Internal Check		
	(iv)	None of the above		
	m.	Segment result is segment _____ less segment expense.		
	(i)	Revenue	A	
	(ii)	Fixed Assets		
	(iii)	Profit		
	(iv)	Loss		

	n.	The first auditor of a Company is appointed by –	
	(i)	Board of Directors	A
	(ii)	Managing Director	
	(iii)	Comptroller and Auditor General (CAG)	
	(iv)	Shareholders	
	o.	Which of the following services cannot be rendered by an auditor as per Companies Act 2013?	
	(i)	Vouching	
	(ii)	Verification of assets and liabilities	
	(iii)	Issuing certificates on relevant matters	
	(iv)	Providing investment advisory services	A
	p.	Every banking company incorporated in India is required to transfer at least _____ of its profit to the reserve fund.	
	(i)	25%	A
	(ii)	40%	
	(iii)	50%	
	(iv)	100%	
	q.	A company auditor resigning from his post shall inform the same to the Registrar in	
	(i)	Form No. ADT -1	
	(ii)	Form No. ADT - 2	
	(iii)	Form No. ADT - 3	A
	(iv)	Form No. ADT – 4	
	r.	General Ledger of a Banking Company does not contain _____	
	(i)	Control Accounts of all personal ledgers	
	(ii)	Assets' Accounts	
	(iii)	Contra Account	
	(iv)	Balance Sheet	A
	s.	Losses of theft are covered by _____ insurance policies	
	(i)	Burglary	A
	(ii)	Fire	
	(iii)	Marine	
	(iv)	None of the above	
	t.	Which of the following is not a component of Cash Flow Statement	
	(i)	Cash payments to suppliers for goods and services	
	(ii)	Charging of Depreciation	A
	(iii)	Cash advances and loans made to third parties	
	(iv)	Cash repayments of amounts borrowed	
Section B			10 × 2 =
You are required to answer all the questions. Each question carries 2 marks.			20
Instructions: Each question is followed by a space where you are required to type your answer.			Marks
2.	a.	Mention of the Statutory Books maintained by a company?	

		Type your answer here Register of Members																							
	b.	What is the Form for Secretarial Audit Report ?																							
		Type your answer here MR-3																							
	c.	Payment of interest comes under which activity?																							
		Type your answer here Financing																							
	d.	What does an insurer do sometimes when he considers a particular risk too much for his capacity?																							
		Type your answer here Reinsurance																							
	e.	The life insurance fund is available to meet what obligation?																							
		Type your answer here The aggregate liability on all policies outstanding.																							
	f.	Who appoints cost auditor on recommendation of audit committee?																							
		Type your answer here Board of Directors																							
	g.	To whom does a Cost Auditor submits his report ?																							
		Type your answer here Board of Directors																							
	h.	As per AS 16 which type of assets are an asset that necessarily takes a substantial period of time to get ready for its intended use or sale?																							
		Type your answer here Qualifying Assets																							
	i.	What is a reportable Segment?																							
		Type your answer here Business segment or a geographical segment identified for which segment information is Required to be disclosed by this statement.																							
	j.	Auditing is the examination of what?																							
		Type your answer here Books of account																							
<div>Section C</div> <div>You are required to answer any 4 out of 6 questions in this section. Each question carries 12 marks.</div> <div>Instructions: Each question is followed by a space where you are required to type your answer.</div>			<div>12 X 4 =</div> <div>48</div> <div>Marks</div>																						
3.	a.	<div>Following information extracted from the books of AB Ltd., as at 31st March, 2021</div> <table><tr><th>Particulars</th><th>Rs. in Lakhs</th></tr><tr><td>Long term borrowing</td><td>500</td></tr><tr><td>Share Capital</td><td>390</td></tr><tr><td>Fixed Assets (Tangible)</td><td>600</td></tr><tr><td>Trade Receivables</td><td>80</td></tr><tr><td>Share Application Money pending Allotment</td><td>10</td></tr><tr><td>Trade Payables</td><td>30</td></tr><tr><td>Reserve and Surplus</td><td>90</td></tr><tr><td>Inventories</td><td>20</td></tr><tr><td>Cash and Cash Equivalents</td><td>120</td></tr><tr><td>Non-Current Investments</td><td>200</td></tr></table>	Particulars	Rs. in Lakhs	Long term borrowing	500	Share Capital	390	Fixed Assets (Tangible)	600	Trade Receivables	80	Share Application Money pending Allotment	10	Trade Payables	30	Reserve and Surplus	90	Inventories	20	Cash and Cash Equivalents	120	Non-Current Investments	200	4
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Calculate the total amount of Equity and Liabilities as per Balance Sheet.

Type your answer here here Rs.1,020 Lakhs

Rough Work

AB Ltd.

Balance Sheet Extract (as at 31st March, 2021)

Particulars	Note No	Rs. in Lakhs
I. Equity and liabilities		
(1) Shareholders' Funds		
(a) Share Capital		390
(b) Reserves and Surplus		90
		480
(2) Share Application Money pending Allotment		10
(3) Non-Current Liabilities		
(a) Long term Borrowings		500
		500
(4) Current Liabilities		
(a) Trade payables		30
		30
Total		1,020

- b.** The following are the summarized Balance Sheets of ABC Limited as on 31st March, 2020 and 2021:

8

Liabilities	31.03.2020	31.03.2021	Assets	31.03.2020	31.03.2021
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

Additional Information:

(i) 10% Dividend was paid during 2020-21.

(ii) Old Machinery costing Rs. 24,000 (accumulated depreciation Rs. 12,000) was sold for Rs. 8,000.

(iii) 40,000 8% Debenture were redeemed by purchase from open market at Rs.96 for a debenture of Rs. 100 on 31.03.2021.

(iv) Investments worth Rs. 72,000 were sold at book value.

(v) Bad debt written off during the year Rs. 10,000.

Calculate the net cash flow from Operating Activities

Type your answer here Rs. 78,800

Rough Work

Calculation of Net Cash Flow from Operating Activities

Particulars	Rs.	Rs.	Rs.
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

(1) Machinery Account

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d	1,04,000	By Bank - Sale proceeds	8,000
By Bank - Purchase (Bal. Fig.)	60,000	By Depreciation fund	12,000
		By Adj. P/L A/c - loss on sale	4,000
		By Balance c/d	1,40,000
	1,64,000		1,64,000

(2) Depreciation Fund Account

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Machinery A/c	12,000	By Balance b/d	80,000
To Balance c/d	88,000	By Adj. P/L A/c— Depreciation	20,000
	1,00,000		1,00,000

(3) Investment Account

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Balance b/d	2,20,000	By Bank	72,000
		By Balance c/d	1,48,000
	2,20,000		2,20,000

(4) Adjusted Profit & Loss Account

Dr.		Cr.	
Particulars	Rs.	Particulars	Rs.
To Machinery A/c - loss on sale	4,000	By Balance b/d	32,000
To Depreciation Fund - Depreciation	20,000	By 8% Debenture-Profit on cancellation	1,600
To Dividend	46,000	By Operating profit (Bal. figure)	96,800
To 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.

4.

a.

M/s. M Ltd. began construction of a new building on 1st January, 2021. It obtained Rs. 3,00,000 special loan to finance the construction of the building on 1st January, 2021 at an interest rate of 12% p.a. The company's other outstanding two non-specific loans were:

Rs.	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:

	Rs.
January, 2021	3,00,000
April, 2021	3,50,000
July, 2021	5,50,000
December, 2021	1,50,000

Building was completed on 31st December, 2021.

Following the principles prescribed in AS 16 on 'Borrowing Cost', calculate the amount of interest to be capitalized.

6

Type your answer here

Rs. 1,03,595

Rough Work

Computation of average accumulated expenses:

	Rs.
Rs.3,00,000 × 12/12	3,00,000
Rs.3,50,000 × 9/12	2,62,500
Rs.5,50,000 × 6/12	2,75,000
Rs.1,50,000 × 1/12	12,500
Rs.13.50.000	8,50,000

Calculation of average interest rate other than for specific borrowings:

Amount of loan (Rs.)	Rate of interest	Amount of interest (Rs.)
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%

Interest amount to be capitalized:

Particulars	Rs.
Specific borrowings (Rs.3,00,000 × 12%)	= 36,000
Non-specific borrowings [Rs. 5,50,000 (Rs. 8,50,000 - Rs.3,00,000)×12.29%]	= 67,595
Amount of interest to be capitalized	= 1,03,595

Computation of actual interest costs incurred during the year —

Particulars	Amount (Rs.)
Rs.3,00,000 × 12%	36,000
Rs.6,00,000 × 11%	66,000

		<table><tr><td>Rs.11,00,000 × 13%</td><td>1,43,000</td></tr><tr><td></td><td>2,45,000</td></tr></table>	Rs.11,00,000 × 13%	1,43,000		2,45,000																																									
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		Amount of Interest to be capitalized is Rs.1,03,595 which is not more than Rs.2,45,000.																																													
	b.	<p>The Revenue Account of a life insurance company shows the life assurance fund on 31st March, 2021 at Rs. 62,00,000 before taking into account the following items:</p> <p>(i) Claims covered under re-insurance Rs. 10,000.</p> <p>(ii) Bonus utilized in reduction of life insurance premium Rs. 4,500.</p> <p>(iii) Interest accrued on securities Rs. 8,200.</p> <p>(iv) Outstanding premium Rs. 5,100.</p> <p>(v) Claims intimated but not admitted Rs. 24,500.</p> <p>What is the life assurance fund after taking into account the above omissions?</p>	6																																												
		<p>Type your answer hereRs. 61,94,300</p> <p>Rough Work</p> <p style="text-align: center;">Statement showing Life Assurance Fund</p> <table><tr><th>Particulars</th><th>Amount (Rs.)</th><th>Amount (Rs.)</th><th>Amount (Rs.)</th></tr><tr><td>Balance of Fund as on 31st March, 2021</td><td></td><td></td><td>62,00,000</td></tr><tr><td>Add:</td><td></td><td></td><td></td></tr><tr><td>Interest on securities</td><td></td><td>8,200</td><td></td></tr><tr><td>Premium outstanding</td><td></td><td>5,100</td><td>13,300</td></tr><tr><td></td><td></td><td></td><td>62,13,300</td></tr><tr><td>Less :</td><td></td><td></td><td></td></tr><tr><td>Claims outstanding</td><td>24,500</td><td></td><td></td></tr><tr><td>Less: Covered under re-insurance</td><td>10,000</td><td>14,500</td><td></td></tr><tr><td>Bonus in reduction of premium</td><td></td><td>4,500</td><td>19,000</td></tr><tr><td>Balance of Life Assurance Fund</td><td></td><td></td><td>61,94,300</td></tr></table>	Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	Balance of Fund as on 31st March, 2021			62,00,000	Add:				Interest on securities		8,200		Premium outstanding		5,100	13,300				62,13,300	Less :				Claims outstanding	24,500			Less: Covered under re-insurance	10,000	14,500		Bonus in reduction of premium		4,500	19,000	Balance of Life Assurance Fund			61,94,300	
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5.	a.	<p>B. Ltd. issued 50,00,000 Equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below:</p> <p>A 15,00,000 shares</p> <p>B 25,00,000 shares</p> <p>C 10,00,000 shares</p> <p>Applications were received for 48,50,000 shares of which the marked applications were as follows:</p> <p>A 12,00,000 shares</p> <p>B 25,00,000 shares</p> <p>C 08,50,000 shares</p> <p>Calculate the number of shares to be taken up by the underwriters.</p>	6																																												
		Type your answer here																																													

A - 1,20,000

B – Nil

C – 30,000

Rough Work

Statement of Net Liabilities of Underwriters

Particulars	A	B	C	D
Gross Liability (3:5:2)	15,00,000	25,00,000	10,00,000	50,00,000
Less: Marked applications	12,00,000	25,00,000	8,50,000	45,50,000
	3,00,000	Nil	1,50,000	4,50,000
Loss: Unmarked Applications* in 3:5:2 ratio	90,000	1,50,000	60,000	3,00,000
Less: Surplus of B allocated to A & C in 3 : 2 ratio	2,10,000 90,000	(1,50,000) 1,50,000	90,000 60,000	1,50,000 1,50,000
Number of shares to be taken up by the underwriters(Net liability)	1,20,000	Nil	30,000	

Unmarked Application = Total Application received - Marked

Application 48,50,000 - 45,50,000 = 3,00,000.

- b.** QP Bank has followed the policies for retirement benefits as under:
- (i) Contribution to pension fund is made based on actuarial valuation at the yearend in respect of employees who have opted for pension scheme.
 - (ii) Contribution to the gratuity fund is made based on actuarial valuation at the year end.
 - (iii) Leave encashment is accounted for on "PAY-AS-YOU-GO" method. Comment whether the policy is in accordance with AS-15.

3

Type your answer here

(i) As the contribution to Pension Fund is made on actuarial basis every year, therefore the policy is as per AS-15, which is based on actuarial basis of accounting.

(ii) As the contribution is being made on annual basis to gratuity fund on actuarial basis, the policy is in accordance with AS-15.

(iii) As regard leave encashment, which is accounted for on PAY-AS-YOU-GO basis, it is not in accordance with AS-15. It should be accounted for on accrual basis.

- c.** Discuss the meaning and uses of Interim Audit.

3

Type your answer here

INTERIM AUDIT Meaning: Interim audit is an audit conducted between two annual audits. It may be conducted for a specific period, such as a quarter or half year, with an interim object of declaration of interim dividend or valuation of shares on a certain date, in case of mergers. It is carried out by professionals, but has no legal status as the figures may be altered subsequently.

Use of Interim Audit It is useful for:

- i. Early detection and rectification of errors & frauds,
- ii. Publishing of interim results in some cases,
- iii. Timely completion of records and final audit,

		iv. Moral checks on employees.	
6	a.	Discuss the procedure of fixation of remuneration as per Sec 142 of the Companies Act,2013.	3
		Type your answer here (1) The remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein. Provided that the Board may fix remuneration of the first auditor appointed by it. (2) The remuneration under sub-section (1) shall, in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and money value of any facility extended to him (commonly known as “out of pocket expenses) but does not include any remuneration paid to him for “any other service” rendered by him at the request of the company. There is restriction on rendering, any other service of Auditor which is mentioned elsewhere in this chapter.	
	b.	As per Section 144 of the companies Act, 2013 the auditor not to render certain services – discuss.	5
		Type your answer here 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 : i. accounting and book keeping services; ii. internal audit; iii. design and implementation of any financial information system; iv. actuarial services; v. investment advisory services; vi. investment banking services; vii. rendering of outsourced financial services; viii. management services; and ix. any other kind of services as may be prescribed.	
	c.	List the powers of Audit Committee.	4
		Type your answer here Powers of the Audit Committee: The powers of the Audit Committee are enumerated below; ● Audit Committee has the power to call for comments of the Auditor about Internal Control Systems and the scope of the Audit including its observation. ● Before submission of the report to the Board the Audit Committee have the power to review the Financial Statement. ● Power to discuss any issues including issue of independence of audit work with the Statutory & Internal Auditor and the Management of the Company in relation to matter contained in the Financial Statement. ● Power to investigate into any matter under the perview of Audit Committee. ● Auditors of the company and key managerial personnel shall have a right to be heard into the meeting. ● Composition of Audit Committee is to be disclosed in Board’s Report. ● In case recommendation of the Audit Committee is not accepted by the Board, the Board shall disclose in Board’s report along with reason .	
7.	a.	List the differences between Internal Control and Internal Check	6
		Type your answer here	

		<ol style="list-style-type: none"> 1. Nature - Internal control system is the whole system of control whereas Internal check is only a part of internal control. 2. Flexibility - Internal control deals with overall control of the organisation with flexibility and Internal check comparatively less flexible. 3. The scope of work - Internal control exercises control over all the areas of a function. Internal check is concerned with the work allocation only. 4. Importance - Internal control is concerned with operational efficiency, productivity and profitability of the organisation. Internal check mainly concerned with recordkeeping and accounting reports. 5. Function - Implementation of internal control is the responsibility of the management staff. Internal check can be carried out by the ordinary staff 6. Internal - Internal control system includes internal check, internal audit and administrative control. Internal check has no internal element . 	
	b.	Enumerate the advantages of an Audit programme	6
		<p>Type your answer here</p> <p>The main advantages of an audit programme are enumerated below:</p> <ol style="list-style-type: none"> 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. He can prove that there has no negligence on his part and he exercised reasonable care and skill while performing the task. 	
8.		You are required write Short Notes on any 4 out of 5	4 × 3= 12 Marks
	a.	“Teeming and Lading”?	
		<p>Type your answer here</p> <p>It is a system of fraudulent manipulation of accounts. It is a method of misappropriation of cash by which the past defalcations are covered up by the current receipts. It is also known as ‘lapping’ or ‘delayed accounting’. It is a method by which the cashier or the person who handles the cash of the organisation uses the money received from a person for his personal purpose for some time and when another payment comes to him he deposits that money against first money used, and does not show the new amount received, and this process will go on for some time. Such a process continues until the time the original amount misappropriated is replaced or until the cashier is caught. It can be detected with the help of auditors. The auditor has to carefully examine the internal check system regarding cash. If there is any deficiency in the internal check system, he must probe into the matter.</p>	
	b.	Disclosure requirement for an enterprise under AS – 11.	
		<p>Type your answer here</p> <p>An enterprise should disclose the followings under AS 11:</p>	

		<p>(a) The amount of exchange difference included in the net profit or loss for the period.</p> <p>(b) The amount of exchange difference adjusted in the carrying amount of fixed assets during the accounting period.</p> <p>(c) The amount of exchange difference in respect of forward contracts to be recognized in the profit/loss for one or more subsequent accounting period.</p> <p>(d) Foreign currency risk management policy.</p>	
	c.	Advantages of Audit	
		<p>Type your answer here</p> <p>ADVANTAGES OF AUDIT The advantages of audit are as follows:</p> <p>a) Audit is a tool, which different stakeholders can use to protect their interests in the enterprise. Auditors are called as 'eyes & ears' of the shareholders.</p> <p>b) Audit is not only a corrective measure but has a deterrent effect. It serves as a moral check on the employees from committing defalcations or embezzlements.</p> <p>c) The employees of the organisation remain alert and vigilant as regards the updating of books of accounts and other records.</p> <p>d) Audited accounts are considered more reliable by different cadres of Government. For example, the tax audit report filed with the Taxation authorities.</p> <p>e) It facilitates detection of wastages and losses and helps in instituting corrective actions.</p> <p>f) Audited accounts are taken to be more reliable and useful during corporate restructuring exercises, valuations etc.</p> <p>g) Banks, Financial Institutions and Government require audited accounts before granting any financial assistance to the enterprise.</p> <p>h) Audited accounts are taken to be more helpful in the settlement of accounts between the partners and thus avoiding any dispute amongst them.</p>	
	d.	Expenditure Audit in case of Government entities	
		<p>Type your answer here</p> <p>Expenditure Audit: The basic standards set for audit of expenditure are to ensure that there is provision of funds authorized by competent authority fixing the limits within which expenditure can be incurred. Some standards are briefly explained below;</p> <p>a) Audit against Rules & Orders: It is also known as Regularity Audit. Under this, the auditor has to see that the expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and orders framed by the competent authority.</p> <p>b) Audit of Sanctions: The auditor has to ensure that each item of expenditure is covered by a sanction, either general or special, accorded by the competent authority, authorizing such expenditure. In case expenditure exceeds the sanctioned limit, objection is raised.</p> <p>c) Audit against Provision of Funds: It contemplates that there is a provision of funds out of which expenditure can be incurred and the amount of such expenditure does not exceed the sanctioned amount as well as examine whether the money has been spent for the specified purpose.</p> <p>Audit of financial propriety: The auditor has to ensure that the expenditure incurred are with respect to the recognized standards of financial propriety i.e. quantity, quality, morality and ethics.</p>	
	e.	Basic Features of Continuous Audit	
		<p>Type your answer here</p> <p>Basic Features of Continuous Audit</p> <p>a) It is a process conducted throughout the year.</p>	

		b) It is conducted at regular or irregular intervals. c) It focuses on testing 100% of transactions. d) Technology is important to enable it. e) It provides advance notice about errors and irregularities detected. f) Surprise visits by the auditor are involved.																																																									
		Section D	12																																																								
		You are required to answer all the questions in this section. Instructions: Each question is followed by a space where you are required to type your answer.	Marks																																																								
9.	a.	<p>There are specified formats for presentation of financial statements as per the rules and regulations in India as applicable to companies.</p> <p>The financial information available in the financial statements can be easily extracted and understood only when they are presented in acceptable format.</p> <p>ABC Limited registered as a company in 2020 just before the pandemic hit India. The Directors are quite new to the business and have resorted to you as a professional to guide them on an appropriate presentation of financial information.</p> <p>The following information has been made available to you on behalf of ABC Limited.</p> <p>The company has an authorized capital of Rs. 5,00,000 divided into 5000 equity shares of Rs. 100 each. On 31.03.2018, 2500 shares were fully called up.</p> <p>The following are the balances extracted from the ledger of the company as on 31.03.2021:</p> <table border="1"> <thead> <tr> <th>Particulars</th><th>Rs.</th><th>Particulars</th><th>Rs.</th></tr> </thead> <tbody> <tr> <td>Inventory</td><td>60,000</td><td>Advertisement</td><td>3,800</td></tr> <tr> <td>Sales</td><td>4,25,000</td><td>Bonus</td><td>10,500</td></tr> <tr> <td>Purchases</td><td>3,00,000</td><td>Accounts receivable</td><td>38,700</td></tr> <tr> <td>Productive wages</td><td>70,000</td><td>Accounts payable</td><td>35,200</td></tr> <tr> <td>Discount allowed</td><td>4,200</td><td>Plant and Machinery</td><td>80,500</td></tr> <tr> <td>Discount received</td><td>3,150</td><td>Furniture</td><td>17,100</td></tr> <tr> <td>Insurance (year up to 30.06.2021)</td><td>6,720</td><td>Cash at bank</td><td>1,30,000</td></tr> <tr> <td>Salaries</td><td>18,500</td><td>Cash in hand</td><td>4,700</td></tr> <tr> <td>Rent</td><td>6,000</td><td>Reserves</td><td>25,000</td></tr> <tr> <td>General expenses</td><td>8,950</td><td>Loan from Managing Director</td><td>15,700</td></tr> <tr> <td>Profit and Loss a/c (cr.)</td><td>16,220</td><td>Bad debts</td><td>3,200</td></tr> <tr> <td>Printing and Stationary</td><td>2,400</td><td>Calls in arrears</td><td>5,000</td></tr> <tr> <td></td><td></td><td>Share capital</td><td>2,50,000</td></tr> </tbody> </table> <p>(a) Closing inventory is Rs. 1,01,500 (b) Depreciation to be charged on plant and furniture at 15% and 10% respectively (c) Outstanding liabilities—wages at Rs. 5,200, salaries at Rs.1,200 and rent at Rs. 600 (d) Salesman are entitled to a commission of 1% on sales (e) Rs. 4,000 are to be transferred to General reserves (f) Dividend on paid up share capital is to be provided @ 5%</p>	Particulars	Rs.	Particulars	Rs.	Inventory	60,000	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 30.06.2021)	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.)	16,220	Bad debts	3,200	Printing and Stationary	2,400	Calls in arrears	5,000			Share capital	2,50,000	
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	(i)	What is the amount of total revenue as per Profit and Loss Statement.	2																																																								

Type your answer here Rs. 4,28,150

Rough work

Profit and Loss Statement of ABC Limited for the year ended 31st March, 2021

Particulars	Note	Amount (Rs.)	Amount (Rs.)
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	2,58,500	
(b) Employees cost/ benefits expenses	8	1,05,400	
(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			16,220
Profit available for appropriation			28,245

Notes to Accounts

	Rs.
Note 7: Cost of Materials Consumed	
Opening Stock	60,000
Purchases	3,00,000
Less: Closing Stock	(1,01,500)
	2,58,500
Note 8: Employees Benefit Expenses	
Salary	19,700
Bonus	10,500
Wages	75,200
	1,05,400
Note 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

(ii) Calculate the Profit available for appropriation as per Profit and Loss Statement of ABC Ltd.

4

Type your answer here Rs. 28,245

- b. A team of three friends during their final examination decided to form a company to start their business of consultancy. They selected a name for their company "Friends Pvt. Ltd." and got it registered under the Companies Act, 2013. After deciding on the formation of the Board of Director (BOD) other required steps they want a professional's advice about the appointment of the auditor for the company.

(i) Guide them as to when the first auditor should be appointed and how?

2

Type your answer here

In case of a company, other than a Government company, the first auditor shall be appointed by the Board of Director within 30 days from the date of registration of the company.

	(ii)	Had it been a Government Company how the first auditor will be appointed?	4
		Type your answer here In case of a Government company, first auditor shall be appointed by CAG within 60 days from the date of registration. If CAG fails to appoint, the BOD of the company appoints the first auditor 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 shall be till the conclusion of the first annual general meeting .	

END