

**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.

Section A				20 X 1 = 20 Marks
<p align="center">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.</p>				
1.	a.	Which of the following are the statutory books of insurance companies?		
		(i)	Register of policies	
		(ii)	Register of Claims	
		(iii)	Register of License Insurance Agents	
		(iv)	All of the above	A
	b.	Who appoints the auditor for government company?		
		(i)	Board of Directors	
		(ii)	Audit Committee	
		(iii)	Managing Director	
		(iv)	Comptroller and Auditor General (CAG)	A
	c.	While conducting audit of financial statement auditor need to comply with which of the following?		
		(i)	Auditing Standards	A
		(ii)	Cost Audit Standards	
		(iii)	Secretarial Standards	
		(iv)	None of the above	
	d.	Under which Section of the Companies Act, 2013 is Audit of Debenture covered?		
		(i)	Section 70	
		(ii)	Section 72	
		(iii)	Section 73	
		(iv)	Section 71	A
	e.	The purpose of Internal Audit is to detect the error in which of the following?		
		(i)	Employees records	
		(ii)	Accounting records	
		(iii)	Bank records	
		(iv)	All	A
	f.	Effective internal check system reduces _____.		
		(i)	Responsibilities of Auditor	
		(ii)	Work of Auditor	A
		(iii)	The liability of Auditor	
		(iv)	None	

	g.	While preparing Cash Flow Statement of X Ltd., a finance company, interest received on loans should be shown as which of the following?	
	(i)	Cash Flow from Investing Activities	
	(ii)	Cash Flow from Operating Activities	A
	(iii)	Cash Flow from Financing Activities	
	(iv)	Cash and Cash Equivalent	
	h.	In case of Cash Flow Statement prepared under Direct Method, decrease in current liabilities is _____.	
	(i)	deducted to cash flow from operating activities	A
	(ii)	added to cash flow from operating activities	
	(iii)	added to cash flow from investing activities	
	(iv)	None of the above	
	i.	On Redemption of Debentures, the amount lying in Debenture Redemption Reserve, which is no longer necessary to be retained, should be transferred to which of the following?	
	(i)	Revaluation Reserve	
	(ii)	Securities Premium Reserve	
	(iii)	Capital Reserve	
	(iv)	General Reserve	A
	j.	Balance of Interest Accrued on Security Deposit A/c of an Electricity Company should be shown under _____.	
	(i)	Current Liability	
	(ii)	Non-current Liability	A
	(iii)	Current Asset	
	(iv)	Non-current Asset	
	k.	In case of a Banking Company, General Ledger does not contain which of the following?	
	(i)	Control Accounts of all personal ledger	
	(ii)	Assets Accounts	
	(iii)	Contra Accounts	
	(iv)	Revenue Accounts	A
	l.	Premium on Redemption of Redeemable Preference Shares can be paid out of which of the following?	
	(i)	Capital Redemption Reserve account	
	(ii)	Existing shares premium account	
	(iii)	Proceed of fresh issue of shares	
	(iv)	All of the above	A
	m.	When shares are allotted, they will be credited to which account?	
	(i)	Share Capital Account	A
	(ii)	Share Allotment Account	
	(iii)	Share Application Account	
	(iv)	Share First and Final Call Account	
	n.	Which of the following reserves cannot be used for the purpose of issuing bonus shares?	

Mock Test Paper with Model Answers for June 2022 Online Examination – Inter/P12-CAA/S1

	(i)	General Reserve		
	(ii)	Capital Redemption Reserve		
	(iii)	Dividend Equalization Reserve		
	(iv)	Revaluation Reserve	A	
	o.	As per Section 52 of the Companies Act 2013, Securities Premium Account cannot be used?		
	(i)	To issue fully paid up bonus shares		
	(ii)	To pay interim dividend	A	
	(iii)	To write off the discount on issue of debentures		
	(iv)	To write off the premium on redemption of preference shares		
	p.	As per Schedule III of the Companies Act 2013, Current Maturities of Long Term Borrowings should be shown under _____.		
	(i)	Current Assets in Balance Sheet		
	(ii)	Non-current Liability in Balance Sheet		
	(iii)	Current Liabilities in Balance Sheet	A	
	(iv)	Other Expenses in Statement of Profit and Loss		
	q.	Banks show the provision for income-tax under which of the following heads?		
	(i)	Contingent liabilities		
	(ii)	Contingency accounts		
	(iii)	Provisions and Contingencies	A	
	(iv)	Borrowings		
	r.	Formats of financial statement of Electricity Companies are laid down in which Act?		
	(i)	The Central Electricity Regulatory Commissions Act, 1988		
	(ii)	The Income Tax Act, 1961		
	(iii)	The Companies Act, 2013	A	
	(iv)	The Electricity Act, 2003		
	s.	In case of an Electricity Company, depreciation is charged as per which of the following?		
	(i)	The rate prescribed by the Companies Act, 2013		
	(ii)	The rate prescribed by the Income Tax Act, 1961		
	(iii)	The rate prescribed by the Central Electricity Regulatory Commissions Act, 1988	A	
	(iv)	The rate prescribed by the Comptroller and Auditor General of India		
	t.	The notice to the registrar about appointment of Auditor under Section 139(1) of the Companies Act, 2013 shall be in Form No. _____.		
	(i)	ADT-1		
	(ii)	ADT-2	A	
	(iii)	ADT-3		
	(iv)	ADT-4		
Section B You are required to answer all the questions. Each question carries 2 marks. Instructions: Each question is followed by a space where you are required to type your answer.				10 X 2 = 20 Marks
2.	a.	Under what type of insurance is a risk that occurs to the same subject matter is insured with more than one insurer, i.e., more than one insurance company?		

		Type your answer here Re-Insurance				
	b.	When does the auditor need to ensure that the debenture issued is approved by the Debenture Trustee?				
		Type your answer here When debentures are issued as collateral security to the banks or creditors				
	c.	Presentation and Disclosure requirements are dealt in which Schedule of the Companies Act, 2013?				
		Type your answer here Schedule III				
	d.	Which kind of asset bears more risk above normal risk and they create trouble regarding their realization?				
		Type your answer here Non-Performing Assets				
	e.	What is the confidentiality requirement from the auditor?				
		Type your answer here Auditor has no right to disclose the client information to a third party				
	f.	Define Audit Notebook.				
		Type your answer here Bound book in which a large variety of matters observed during the course of audit are recorded.				
	g.	What is a Bonus with respect to an insurance company?				
		Type your answer here Share of profit which is payable by the insurance company to the policyholders				
	h.	In pursuant to the Companies (Cost Records and Audit) Rules, 2014, Cost Audit Report is submitted to the Board of Directors under which Form?				
		Type your answer here Form No. CRA-3				
	i.	Which section of the Companies Act, 2013 deals with remuneration to auditors?				
		Type your answer here Section 142				
	j.	What is dealt with under Section 73 of the Companies Act, 2013?				
		Type your answer here Audit of Debenture				
Section C						12 X 4 = 48 Marks
You are required to answer any 4 out of 6 questions in this section. Each question carries 12 marks.						
Instructions: Each question is followed by a space where you are required to type your answer.						
3.	a.	ABC Ltd. has the following assets and liabilities as on 31.3.2022:				3 + 4
		Liabilities	Amount Rs.	Assets	Amount Rs.	

	<table><tr><td>Share Capital</td><td></td><td>Fixed Assets</td><td>22,00,000</td></tr><tr><td>Issued, Subscribed and fully paid-up</td><td></td><td>Current Assets</td><td>8,00,000</td></tr><tr><td>10,000 Equity Shares of Rs. 100 each</td><td>10,00,000</td><td></td><td></td></tr><tr><td>5,000 Preference Shares of Rs.100 each</td><td>5,00,000</td><td></td><td></td></tr><tr><td>Capital Reserve (revaluation profit)</td><td>1,00,000</td><td></td><td></td></tr><tr><td>Securities Premium A/c</td><td>1,00,000</td><td></td><td></td></tr><tr><td>General Reserve</td><td>2,00,000</td><td></td><td></td></tr><tr><td>Profit & Loss A/c</td><td>1,00,000</td><td></td><td></td></tr><tr><td>Current Liabilities</td><td>10,00,000</td><td></td><td></td></tr><tr><td></td><td>30,00,000</td><td></td><td>30,00,000</td></tr></table>	Share Capital		Fixed Assets	22,00,000	Issued, Subscribed and fully paid-up		Current Assets	8,00,000	10,000 Equity Shares of Rs. 100 each	10,00,000			5,000 Preference Shares of Rs.100 each	5,00,000			Capital Reserve (revaluation profit)	1,00,000			Securities Premium A/c	1,00,000			General Reserve	2,00,000			Profit & Loss A/c	1,00,000			Current Liabilities	10,00,000				30,00,000		30,00,000	
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	<p>The Preference Shares are to be redeemed at 10% premium. Fresh issue of equity shares is to be made to the extent it is required under the Companies Act, 2013 for the purpose of this redemption. The shortfall in funds for the purpose of the redemption after utilizing the proceeds of the fresh issue are to be met by taking a bank loan.</p> <p>(i) Determine the following:</p> <p>Face Value of the shares and the no. of shares to be issued</p> <p>Amount required for payment to Preference Shareholders</p> <p>Amount of bank loan required for payment to Preference Shareholders</p> <p>(ii) Show the Journal Entries for the following:</p> <p>Amounts to be transferred to Capital Redemption Reserve</p> <p>Amount payable on redemption preference shares transferred to shareholders a/c</p>																																									
	<p>Type your answer here</p> <p>(i)</p> <p>Face Value of the shares = Rs.2,00,000</p> <p>No. of shares to be issued = 2,000</p> <p>Amount required for payment to Preference Shareholders = Rs.5,50,000</p> <p>Amount of bank loan required for payment to Preference Shareholders = Rs.3,50,000</p> <p>(ii) Journal Entries</p> <p>Amounts to be transferred to Capital Redemption Reserve</p> <table><tr><td>General Reserve A/c</td><td>Dr.</td><td>2,00,000</td><td></td></tr><tr><td>Profit and Loss A/c</td><td>Dr.</td><td>1,00,000</td><td></td></tr><tr><td>To Capital Redemption Reserve A/c</td><td></td><td></td><td>3,00,000</td></tr><tr><td colspan="4">(Being the amount transferred to Capital Redemption Reserve)</td></tr></table> <p>Amount payable on redemption preference shares transferred to shareholders a/c</p> <table><tr><td>Preference Share Capital A/c</td><td>Dr.</td><td>5,00,000</td><td></td></tr><tr><td>Premium on Redemption of Presence Shares A/c</td><td>Dr.</td><td>50,000</td><td></td></tr><tr><td>To Preference Shareholder A/c</td><td></td><td></td><td>5,50,000</td></tr><tr><td colspan="4">(Being the amount payable on redemption preference shares transferred to shareholders A/c)</td></tr></table>	General Reserve A/c	Dr.	2,00,000		Profit and Loss A/c	Dr.	1,00,000		To Capital Redemption Reserve A/c			3,00,000	(Being the amount transferred to Capital Redemption Reserve)				Preference Share Capital A/c	Dr.	5,00,000		Premium on Redemption of Presence Shares A/c	Dr.	50,000		To Preference Shareholder A/c			5,50,000	(Being the amount payable on redemption preference shares transferred to shareholders A/c)												
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	<p>ROUGH WORK</p> <p style="text-align: center;">Books of ABC Ltd. Journal</p> <table><tr><td></td><td>Particulars</td><td>Dr.</td><td>Cr.</td></tr></table>		Particulars	Dr.	Cr.																																					
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		<table><tr><td>Bank A/c To Equity Share Capital A/c (Being the issue of 2000 Equity Share of Rs.100 each for redemption of Preference Shares, as per Board's Resolution no. dated)</td><td>Dr. <</td></tr></table>	Bank A/c To Equity Share Capital A/c (Being the issue of 2000 Equity Share of Rs.100 each for redemption of Preference Shares, as per Board's Resolution no. dated)	Dr. <
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option or sweat equity;

4.

From the following information relates to X Ltd.

Balance Sheet of X Ltd.

	Particulars	Note No.	As on 31.03.2022 Rs.	As on 31.03.2021 Rs.
I	Equity and Liabilities			
1.	Shareholders' Fund			
	(a) Share Capital		15,00,000	10,00,000
	(b) Reserves and Surplus (Balance in Statement of Profit and Loss)		7,50,000	6,00,000
2.	Non-Current Liability			
	Long-term borrowings	1	1,00,000	2,00,000
4.	Current Liabilities			
	(a) Trade payables		1,00,000	1,10,000
	(b) Short-term provisions (Provision for Taxation)		95,000	80,000
	Total		25,45,000	19,90,000
II	Assets			
1.	Non-current Assets			
	(a) Fixed Assets			
	(i) Tangible assets	2	10,10,000	12,00,000
	(ii) Intangible assets (Goodwill)		1,80,000	2,00,000
	(b) Non-current Investment		6,00,000	--
2.	Current Assets			
	(a) Inventories		1,80,000	1,00,000
	(b) Trade Receivables		2,00,000	1,50,000
	(c) Cash and Cash Equivalent	3	3,75,000	3,40,000
	Total		25,45,000	19,90,000

Notes to Accounts:

	Particulars	As on 31.03.2022 Rs.	As on 31.03.2021 Rs.
1.	Long-term Borrowings:		
	(a) 9% Debentures		2,00,000
	(b) 5% Bank loan	1,00,000	
		1,00,000	2,00,000
2.	Tangible assets		
	(a) Land and Building	6,50,000	8,00,000
	(b) Plant and Machinery	3,60,000	4,00,000
		10,10,000	12,00,000
3.	Cash and Cash Equivalents		
	(a) Cash in hand	70,000	50,000
	(b) Bank balance	3,05,000	2,90,000
		3,75,000	3,40,000

Additional information:

- Proposed dividend 2021-22 is Rs. 2,25,000 and for 2020-21 is Rs. 1,50,000.
- Income tax paid during the year includes Rs. 15,000 on account of dividend tax.
- Land and building book value Rs. 1,50,000 was sold at a profit of 10%.

		4. The rate of depreciation on Plant and Machinery is 10%. 5. 9% debentures redeemed on April 2021, 5% bank loan was opted on March 31, 2022.																																																																												
	(i)	Compute the following: Net Profit before Taxation and Extraordinary Items Operating Profit before Working Capital Changes Cash Generated from Operations	3																																																																											
		Type your answer here Net Profit before Taxation and Extraordinary Items = Rs.3,95,000 Operating Profit before Working Capital Changes = Rs.4,40,000 Cash Generated from Operations = Rs.3,00,000																																																																												
	(ii)	Determine the amount of cash flows from the following activities: Cash Flows from Operating Activities Cash Flows from Investing Activities Cash Flows from Financing Activities	6																																																																											
		Type your answer here Cash Flows from Operating Activities = Rs.2,35,000 Cash Flows from Investing Activities = Rs.(4,35,000) Cash Flows from Financing Activities = Rs.2,35,000																																																																												
		ROUGH WORK Cash Flow Statement as per AS-3 for X Ltd. for the year ended 31st March 2021																																																																												
		<table><tr><th>Particulars</th><th>Amount (Rs.)</th><th>Amount (Rs.)</th></tr><tr><td>I. Cash Flow from Operating Activities</td><td></td><td></td></tr><tr><td>Net Profit before Taxation and Extraordinary Items</td><td>3,95,000</td><td></td></tr><tr><td>Adjustment for –</td><td></td><td></td></tr><tr><td>+ Depreciation</td><td>40,000</td><td></td></tr><tr><td>+ Goodwill written-off</td><td>20,000</td><td></td></tr><tr><td>– Profit on Sale of Land</td><td>(15,000)</td><td></td></tr><tr><td>Operating Profit before Working Capital Changes</td><td>4,40,000</td><td></td></tr><tr><td>– Decrease in Trade Payables</td><td>(10,000)</td><td></td></tr><tr><td>– Increase in Trade Receivables</td><td>(50,000)</td><td></td></tr><tr><td>– Increase in Inventories</td><td>(80,000)</td><td></td></tr><tr><td>Cash Generated from Operations</td><td>3,00,000</td><td></td></tr><tr><td>– Income Tax Paid (1)</td><td>(65,000)</td><td>2,35,000</td></tr><tr><td>II. Cash Flow from Investing Activities</td><td></td><td></td></tr><tr><td>Proceeds from Sale of Land and Building</td><td>1,65,000</td><td></td></tr><tr><td>Purchase of Investment</td><td>(6,00,000)</td><td>(4,35,000)</td></tr><tr><td>III. Cash Flow from Financing Activities</td><td></td><td></td></tr><tr><td>Proceeds from issue of Equity Share Capital</td><td>5,00,000</td><td></td></tr><tr><td>Redemption of Debentures</td><td>(2,00,000)</td><td></td></tr><tr><td>Proceeds from raising Bank Loan</td><td>1,00,000</td><td></td></tr><tr><td>Dividend Paid</td><td>(1,50,000)</td><td></td></tr><tr><td>Dividend Distribution Tax Paid</td><td>(15,000)</td><td>2,35,000</td></tr><tr><td>Net Increase in Cash and Cash Equivalents</td><td></td><td>35,000</td></tr><tr><td>Add: Cash and Cash Equivalents in the beginning</td><td></td><td>3,40,000</td></tr><tr><td>Cash and Cash Equivalent at the end</td><td></td><td>3,75,000</td></tr></table>	Particulars	Amount (Rs.)	Amount (Rs.)	I. Cash Flow from Operating Activities			Net Profit before Taxation and Extraordinary Items	3,95,000		Adjustment for –			+ Depreciation	40,000		+ Goodwill written-off	20,000		– Profit on Sale of Land	(15,000)		Operating Profit before Working Capital Changes	4,40,000		– Decrease in Trade Payables	(10,000)		– Increase in Trade Receivables	(50,000)		– Increase in Inventories	(80,000)		Cash Generated from Operations	3,00,000		– Income Tax Paid (1)	(65,000)	2,35,000	II. Cash Flow from Investing Activities			Proceeds from Sale of Land and Building	1,65,000		Purchase of Investment	(6,00,000)	(4,35,000)	III. Cash Flow from Financing Activities			Proceeds from issue of Equity Share Capital	5,00,000		Redemption of Debentures	(2,00,000)		Proceeds from raising Bank Loan	1,00,000		Dividend Paid	(1,50,000)		Dividend Distribution Tax Paid	(15,000)	2,35,000	Net Increase in Cash and Cash Equivalents		35,000	Add: Cash and Cash Equivalents in the beginning		3,40,000	Cash and Cash Equivalent at the end		3,75,000	
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		Working Notes: Total tax paid during the year Rs. 80,0000 (–) Dividend Distribution tax paid (given) Rs. (15,000) Income tax paid for operating activities Rs. 65,000																																																																												

Net profit earned during the year after tax and dividend

= Rs. 7,50,000 – 6,00,000 = Rs. 1,50,000

(3) Net profit before tax

= Net profit earned during the year after tax and dividend + Provision for tax made + Declared Dividend

= Rs. 1,50,000 + Rs. 95,000 (See provision for taxation) + Rs. 1,50,000

= Rs. 3,95,000

Equity Share Capital Account

Dr.		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance c/d	15,00,000	By Balance b/d	10,00,000
		Cash (New capital raised)	5,00,000
	15,00,000		15,00,000

Debenture Account

Dr.		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Cash (Redemption)	2,00,000	Balance b/d	2,00,000
	2,00,000		2,00,000

Bank Account

Dr.		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Balance c/d	1,00,000	Cash	1,00,000
	1,00,000		1,00,000

Provision for Taxation Account

Dr.		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Cash (Tax paid: which includes Rs. 15,000 as dividend)	80,000	Balance b/d	80,000
Balance c/d	95,000	Statement of Profit and Loss (Provision made during the year)	95,000
	1,75,000		1,75,000

Land and Building Account

Dr.		Cr.	
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Balance b/d	8,00,000	Cash	1,65,000
Statement of Profit and Loss (Profit on sale)	15,000	Balance c/d	6,50,000

		<table> <tr> <td></td><td>8,15,000</td><td></td><td>8,15,000</td></tr> </table>		8,15,000		8,15,000																	
	8,15,000		8,15,000																				
		<p style="text-align: center;">Proposed Dividend Account</p> <table> <tr> <td style="text-align: center;">Dr.</td><td></td><td style="text-align: center;">Cr.</td><td></td></tr> <tr> <td>Particulars</td><td>Amount (Rs.)</td><td>Particulars</td><td>Amount (Rs.)</td></tr> <tr> <td>Cash</td><td>1,50,000</td><td>Surplus</td><td>1,50,000</td></tr> <tr> <td></td><td>1,50,000</td><td></td><td>1,50,000</td></tr> </table>	Dr.		Cr.		Particulars	Amount (Rs.)	Particulars	Amount (Rs.)	Cash	1,50,000	Surplus	1,50,000		1,50,000		1,50,000					
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Particulars	Amount (Rs.)	Particulars	Amount (Rs.)																				
Cash	1,50,000	Surplus	1,50,000																				
	1,50,000		1,50,000																				
		<p style="text-align: center;">Plant and Machinery Account</p> <table> <tr> <td style="text-align: center;">Dr.</td><td></td><td style="text-align: center;">Cr.</td><td></td></tr> <tr> <td>Particulars</td><td>Amount (Rs.)</td><td>Particulars</td><td>Amount (Rs.)</td></tr> <tr> <td>Balance b/d</td><td>4,00,000</td><td>Depreciation</td><td>40,000</td></tr> <tr> <td></td><td>1,50,000</td><td>Balance c/d</td><td>3,60,000</td></tr> <tr> <td></td><td>4,00,000</td><td></td><td>4,00,000</td></tr> </table>	Dr.		Cr.		Particulars	Amount (Rs.)	Particulars	Amount (Rs.)	Balance b/d	4,00,000	Depreciation	40,000		1,50,000	Balance c/d	3,60,000		4,00,000		4,00,000	
Dr.		Cr.																					
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	1,50,000	Balance c/d	3,60,000																				
	4,00,000		4,00,000																				
	b.	What do you understand by Cash and Cash Equivalents?	3																				
		<p>Type your answer here</p> <p>Cash means cash in hand and balance of foreign currency. Cash equivalent implies bank balance and other risk-free short term investments, and advances which are readily encashable. Cash equivalent means short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. An investment of short maturity, say three months or less from the date of acquisition is generally considered as cash equivalent. Equity investments are not considered as cash equivalent because of high market risk. Investments in call money market, money market mutual funds, repo transactions, badla transactions, etc., are usually classified as cash equivalents.</p>																					
5.	a.	<p>The Revenue Account of a Life Insurance Company shows the Life Assurance Fund on 31st March, 2022 at Rs. 50,00,000 before taking into account the following items:</p> <p>(i) Claims covered under reinsurance 9,000.</p> <p>(ii) Bonus utilized in reduction of life insurance premium 4,000.</p> <p>(iii) Interest accrued on securities 7,000.</p> <p>(iv) Outstanding premium 4,000.</p> <p>(v) Claims intimated but not admitted 20,000.</p> <p>What is the balance of Life Assurance Fund after taking into account the above omissions?</p>	6																				
		<p>Type your answer here</p> <p>Balance of Life Assurance Fund = Rs.49,96,000</p> <p>ROUGH WORK</p> <p style="text-align: center;">Statement showing Life Assurance Fund</p> <table> <tr> <td>Particulars</td><td>Amount (Rs.)</td><td>Amount (Rs.)</td><td>Amount (Rs.)</td></tr> <tr> <td>Balance of Life Assurance Fund as on 31st March, 2021 (before adjustments)</td><td></td><td></td><td>50,00,000</td></tr> <tr> <td>Add:</td><td></td><td></td><td></td></tr> <tr> <td>Interest on Securities</td><td></td><td>7,000</td><td></td></tr> </table>	Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	Balance of Life Assurance Fund as on 31st March, 2021 (before adjustments)			50,00,000	Add:				Interest on Securities		7,000						
Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)																				
Balance of Life Assurance Fund as on 31st March, 2021 (before adjustments)			50,00,000																				
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Interest on Securities		7,000																					

		<table><tr><td>Premium Outstanding</td><td></td><td>4,000</td><td>11,000</td></tr><tr><td></td><td></td><td></td><td>50,11,000</td></tr><tr><td>Less:</td><td></td><td></td><td></td></tr><tr><td>Claims Outstanding</td><td>20,000</td><td></td><td></td></tr><tr><td>Less: Covered under Re-insurance</td><td>9,000</td><td>11,000</td><td></td></tr><tr><td>Bonus in reduction of Premium</td><td></td><td>4,000</td><td>15,000</td></tr><tr><td>Balance of Life Assurance Fund</td><td></td><td></td><td>49,96,000</td></tr></table>	Premium Outstanding		4,000	11,000				50,11,000	Less:				Claims Outstanding	20,000			Less: Covered under Re-insurance	9,000	11,000		Bonus in reduction of Premium		4,000	15,000	Balance of Life Assurance Fund			49,96,000																	
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Balance of Life Assurance Fund			49,96,000																																												
	b.	On 1st January, 2021, C Ltd. issued 2,000, 10% Debentures of Rs. 250 each at Rs. 225 each. Debenture- holders were given an option to get their debentures converted into equity shares of Rs. 50 each at a premium of Rs. 25 per share. On 31st December, 2021, one year’s interest had accrued on these debentures which were not paid. A holder of 200 debentures informed that he wanted to exercise the option for conversion of debentures into equity shares. The company, therefore, accepted his request and redeemed these 200 debentures by issuing him equity shares. The interest, however, on these 200 debentures was paid to the debenture holder.																																													
	(i)	How much amount was received on issue of debentures and the amount of discount on such issue, if any?	2																																												
		Type your answer here Amount received on issue of debentures = Rs.4,50,000 Amount of Discount on Issue of Debentures = Rs.50,000																																													
	(ii)	Show the journal entries required to be passed on 31.12.2021 for the redemption of 200 debentures and conversion into equity shares. What will be the balance of Outstanding Interest on Debentures A/c balance as on 31.12.2021?	4																																												
		Type your answer here Journal entries required to be passed on 31.12.2021 for the redemption of 200 debentures and conversion into equity shares <table><tr><td>Debenture holders’ A/c</td><td>Dr.</td><td>45,000</td><td></td></tr><tr><td>To Equity Share Capital A/c</td><td></td><td></td><td>30,000</td></tr><tr><td>To Securities Premium A/c</td><td></td><td></td><td>15,000</td></tr><tr><td colspan="4">(Being the issue of 600 Equity Shares of Rs.50 each at a premium of 25%)</td></tr><tr><td>10% Debenture A/c</td><td>Dr.</td><td>50,000</td><td></td></tr><tr><td>To Discount on issue of Debentures A/c</td><td></td><td></td><td>5,000</td></tr><tr><td>To Debenture holders’ A/c</td><td></td><td></td><td>45,000</td></tr><tr><td colspan="4">(Being the amount due to debenture-holders)</td></tr><tr><td>Outstanding Interest on Debentures A/c</td><td>Dr.</td><td>5,000</td><td></td></tr><tr><td>To Bank A/c</td><td></td><td></td><td>5,000</td></tr><tr><td colspan="4">(Being the Interest paid to the Debentures holders)</td></tr></table> Balance of Outstanding Interest on Debentures A/c balance as on 31.12.2021 = Rs.45,000 Credit	Debenture holders’ A/c	Dr.	45,000		To Equity Share Capital A/c			30,000	To Securities Premium A/c			15,000	(Being the issue of 600 Equity Shares of Rs.50 each at a premium of 25%)				10% Debenture A/c	Dr.	50,000		To Discount on issue of Debentures A/c			5,000	To Debenture holders’ A/c			45,000	(Being the amount due to debenture-holders)				Outstanding Interest on Debentures A/c	Dr.	5,000		To Bank A/c			5,000	(Being the Interest paid to the Debentures holders)				
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		<table><tr><td>Date</td><td>Particulars</td><td>L.F.</td><td>Dr. Rs.</td><td>Cr. Rs.</td></tr><tr><td>01.01.21</td><td>Bank A/c</td><td>Dr.</td><td>4,50,000</td><td></td></tr><tr><td></td><td>Discount on Issue of Debentures A/c</td><td>Dr.</td><td>50,000</td><td></td></tr><tr><td></td><td>To 10% Debentures A/c</td><td></td><td></td><td>5,00,000</td></tr><tr><td></td><td colspan="4">(Being the Debentures issued at 10% discount)</td></tr></table>	Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.	01.01.21	Bank A/c	Dr.	4,50,000			Discount on Issue of Debentures A/c	Dr.	50,000			To 10% Debentures A/c			5,00,000		(Being the Debentures issued at 10% discount)																							
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		31.12.21	Interest on Debentures A/c Dr. To Outstanding Interest on Debentures A/c (Being the Interest due on debentures)		50,000	50,000																																																		
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			Outstanding Interest on Debentures A/c Dr. To Bank A/c (Being the Interest paid to the Debentures holders)		5,000	5,000																																																		
6.	a.	<p>M Ltd. came out with an issue of 45, 00,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A; B and C</p> <p>Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:</p> <table><tr><td>A</td><td>7,25,000 shares</td></tr><tr><td>B</td><td>8,40,000 shares</td></tr><tr><td>C</td><td>13,10,000 shares</td></tr><tr><td>Total</td><td>28,75,000 shares</td></tr></table> <p>The underwriters are eligible for a commission of 5%. The entire amount towards shares subscription has to be paid along with application.</p>						A	7,25,000 shares	B	8,40,000 shares	C	13,10,000 shares	Total	28,75,000 shares																																									
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Total	28,75,000 shares																																																							
	(i)	What will be the underwriter's liability (number of shares)?						4																																																
		<p>Type your answer here Underwriters liability (number of shares): A = 2,57,500; B = 1,42,500; C = 1,00,000</p> <p>ROUGH WORK Computation of liabilities of underwriters (No. of shares):</p> <table><tr><th>Particulars</th><th>A</th><th>B</th><th>C</th></tr><tr><td>Gross liability</td><td>12,00,000</td><td>12,00,000</td><td>12,00,000</td></tr><tr><td>Less: Firm underwriting</td><td>1,00,000</td><td>1,00,000</td><td>1,00,000</td></tr><tr><td></td><td>11,00,000</td><td>11,00,000</td><td>11,00,000</td></tr><tr><td>Less: Marked applications</td><td>7,25,000</td><td>8,40,000</td><td>13,10,000</td></tr><tr><td></td><td>3,75,000</td><td>2,60,000</td><td>(2,10,000)</td></tr><tr><td>Less: Unmarked applications distributed to A and B in equal ratio</td><td>1,12,500</td><td>1,12,500</td><td>Nil*</td></tr><tr><td></td><td>2,62,500</td><td>1,47,500</td><td>(2,10,000)</td></tr><tr><td>Less: Surplus of C distributed to A and B in equal ratio</td><td>1,05,000</td><td>1,05,000</td><td>2,10,000</td></tr><tr><td>Net liability (excluding firm underwriting)</td><td>1,57,500</td><td>42,500</td><td>Nil</td></tr><tr><td>Add: Firm underwriting</td><td>1,00,000</td><td>1,00,000</td><td>1,00,000</td></tr><tr><td>Total Liability (No. of shares)</td><td>2,57,500</td><td>1,42,500</td><td>1,00,000</td></tr></table> <p>*Alternatively, 2,25,000 unmarked applications may be distributed to all equity and thereafter, C's</p>						Particulars	A	B	C	Gross liability	12,00,000	12,00,000	12,00,000	Less: Firm underwriting	1,00,000	1,00,000	1,00,000		11,00,000	11,00,000	11,00,000	Less: Marked applications	7,25,000	8,40,000	13,10,000		3,75,000	2,60,000	(2,10,000)	Less: Unmarked applications distributed to A and B in equal ratio	1,12,500	1,12,500	Nil*		2,62,500	1,47,500	(2,10,000)	Less: Surplus of C distributed to A and B in equal ratio	1,05,000	1,05,000	2,10,000	Net liability (excluding firm underwriting)	1,57,500	42,500	Nil	Add: Firm underwriting	1,00,000	1,00,000	1,00,000	Total Liability (No. of shares)	2,57,500	1,42,500	1,00,000	
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		surplus can be transferred to A & B. Result will be the same.																						
	(ii)	What is the amount payable by or due to underwriters?	2																					
		<p>Type your answer here Amounts payable by underwriters: A = Rs.23,70,000; B = 9,90,000; C = Rs.4,80,000 ROUGH WORK Computation of amounts payable by underwriters:</p> <table><tr><td></td><td>A</td><td>B</td><td>C</td></tr><tr><td>Liability towards shares to be subscribed @12 per share</td><td>30,90,000</td><td>17,10,000</td><td>12,00,000</td></tr><tr><td>Less: Commission (5% on 12 lakhs shares @12 each)</td><td>7,20,000</td><td>7,20,000</td><td>7,20,000</td></tr><tr><td>Net amount to be paid by underwriters</td><td>23,70,000</td><td>9,90,000</td><td>4,80,000</td></tr></table>		A	B	C	Liability towards shares to be subscribed @12 per share	30,90,000	17,10,000	12,00,000	Less: Commission (5% on 12 lakhs shares @12 each)	7,20,000	7,20,000	7,20,000	Net amount to be paid by underwriters	23,70,000	9,90,000	4,80,000						
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Net amount to be paid by underwriters	23,70,000	9,90,000	4,80,000																					
	b.	Distinguish between internal control and internal check.	6																					
		<p>Type your answer here</p> <table><tr><td>Basis of Difference</td><td>Internal Control</td><td>Internal Check</td></tr><tr><td>Nature</td><td>Internal control system is the whole system of control.</td><td>Internal check is only a part of internal control</td></tr><tr><td>Flexibility</td><td>It deals with overall control of the organisation with flexibility.</td><td>It is comparatively less flexible.</td></tr><tr><td>The scope of work</td><td>It exercises control over all the areas of a function.</td><td>It is concerned with the work allocation only.</td></tr><tr><td>Importance</td><td>It is concerned with operational efficiency, productivity and profitability of the organisation.</td><td>It is mainly concerned with record keeping and accounting reports.</td></tr><tr><td>Function</td><td>Implementation of internal control is the responsibility of the management staff.</td><td>Internal check can be carried out by the ordinary staff.</td></tr><tr><td>Internal</td><td>Internal control system includes internal check, internal audit and administrative</td><td>It has no internal element.</td></tr></table>	Basis of Difference	Internal Control	Internal Check	Nature	Internal control system is the whole system of control.	Internal check is only a part of internal control	Flexibility	It deals with overall control of the organisation with flexibility.	It is comparatively less flexible.	The scope of work	It exercises control over all the areas of a function.	It is concerned with the work allocation only.	Importance	It is concerned with operational efficiency, productivity and profitability of the organisation.	It is mainly concerned with record keeping and accounting reports.	Function	Implementation of internal control is the responsibility of the management staff.	Internal check can be carried out by the ordinary staff.	Internal	Internal control system includes internal check, internal audit and administrative	It has no internal element.	
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7.	a.	Discuss the powers of the Audit Committee.	5																					
		<p>Type your answer here Powers of the Audit Committee:</p> <ul style="list-style-type: none">• 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 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 purview of Audit Committee.																						

		<ul style="list-style-type: none"> • 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 reasons. 	
	b.	State the provisions of Companies Act, 2013 relating to Secretarial Audit.	7
		<p>Type your answer here</p> <p>Extract of Provision of Section 204 of the Companies Act 2013 Section 204.</p> <p>(1) Every listed company and a company belonging to other class of companies as may be prescribed in rule 9 of chapter XIII under the Act, shall annex with its Board's report made in terms of sub-section (3) of section 134, a secretarial audit report, given by a company secretary in practice, in such form as may be prescribed in rule 9 of chapter XIII under the Act.</p> <p>Rule 9 Secretarial Audit Report.</p> <p>(1) For the purposes of sub-section (1) of section 204, the other class of companies shall be as under-</p> <p>(a) Every public company having a paid-up share capital of fifty crore rupees or more; or</p> <p>(b) Every public company having a turnover of two hundred fifty crore rupees or more.</p> <p>(2) The format of the Secretarial Audit Report shall be in Form No. MR.3.</p> <p>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.</p> <p>The Board of Directors, in their report made in terms of sub-section (3) of section 134, shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report under sub-section (1).</p> <p>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 Rs.2 lakhs.</p> <p>As per section 204(1) of Companies Act, 2013 read with rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the following companies are required to obtain Secretarial Audit Report:</p> <p>Every listed company;</p> <p>Every public company having a paid-up share capital of fifty crore rupees or more; or</p> <p>Every public company having a turnover of two hundred fifty crore rupees or more.</p> <p>Every company having outstanding loans or borrowings from banks or public financial institutions of Rs.100 crores or more.</p> <p>However the "Turnover" means the aggregate value of the realization of amount made from the Sale, Supply or Distribution of goods or on account of services rendered, or both, by the company during a financial year [Section 2(91)].</p> <p>The Secretarial Audit Report is required to be provided in the format prescribed in Form MR-3 (Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014).</p>	
8.	You are required write Short Notes on any 4 out of 5.		4 X 3 = 12 Marks
	a.	Audit of Hospital	3
		<p>Type your answer here</p> <p>The following points are to be considered necessary for conducting an audit of Hospital.</p> <ul style="list-style-type: none"> • Check the letter of appointment to ascertain the scope of responsibilities. 	

		<ul style="list-style-type: none"> • 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 copies of bills 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 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. • Interest and/ or dividend income should be vouched with reference to the Investment Register and Interest and Dividend warrants. • In case of legacies and donations which are received for specific purposes, it should be ensured that any income the reform is not utilized for any other purposes. • 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. • Government grants or grants from local bodies should be verifies with the reference to the correspondence with the concerned authorities. • Clear distinction should be made between the items of capital and revenue nature. • The capital expenditure should be incurred under proper authorization by a valid resolution of the trustees or the Managing Committee. • Verify the system of internal check as regards purchases and issue of stores, medicines etc. • Examine that the appointment of the staff, payment of salaries etc. are duly authorized. • Physically verify the investments, fixed assets and inventories. • Check that adequate depreciation has been provided on all the depreciable 	
	b.	Geographical Segment as per AS-17	3
		<p>Type your answer here</p> <p>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:</p> <ol style="list-style-type: none"> Similarity of economic and political conditions; Relationships between operations in different geographical areas; Proximity of operations; Special risks associated with operations in a particular area; Exchange control regulations; and The underlying currency risks. 	
	c.	Audit of Municipalities and Panchayats	3
		<p>Type your answer here</p> <p>The major objective of audit of Municipalities and Panchayats are enumerated below;</p> <ol style="list-style-type: none"> To ensure on the fairness and correctness of contents in the Financial Statement To report on adequacy of internal control To ensure value of money is fully received on amount spent. To detect the frauds and errors. <p>The following points are to be considered necessary for carrying on audit of Municipalities and Panchayats (Local Bodies);</p> <ol style="list-style-type: none"> 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 encase that sanction is accorded by the competent authority either special or general. (iii) To encase 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.	Removal of Auditor before the expiry of his term	3															
		Type your answer here The auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf in the manner prescribed in rule 7 of chapter X under the act. (1) The application to the Central Government for removal of auditor shall be made in e-Form ADT-2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014. (2) The application shall be made to the Central Government within thirty days of the resolution passed by the Board. (3) The company shall hold the general meeting within sixty days of receipt of approval of the Central Government for passing the special resolution.																
	e.	Auditor's duty regarding Issue of Debentures	3															
		Type your answer here (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 of 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.																
Section D 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.			12 Marks															
9.		<p>MM Ltd. has diversified business lines. It has two main segments - Segment A and Segment B. It also has some inter-segmental dealings. The Board of Directors are with an idea to expand the business in near future and increase the number of segments. MM Ltd. always prepares Segment Report to comply with The Companies Act, 2013.</p> <p>Being a Cost Accountant you are requested by the Finance Department of MM Ltd. to prepare the Segment Report for the year as per Accounting Standard – 17 and provide the necessary accounting data for statutory compliances.</p> <p>Following information are provided by the Finance Manager of MM Ltd. to you:</p> <table><tr><th>Particulars</th><th>Segment</th><th>(Rs. in lakh)</th></tr><tr><td>Segment Revenue</td><td>A</td><td>27,150</td></tr><tr><td>Segment Revenue</td><td>B</td><td>3,280</td></tr><tr><td>Inter Segment Revenue</td><td>A</td><td>50</td></tr><tr><td>Segment Profit/(Loss)</td><td>A</td><td>4,640</td></tr></table>	Particulars	Segment	(Rs. in lakh)	Segment Revenue	A	27,150	Segment Revenue	B	3,280	Inter Segment Revenue	A	50	Segment Profit/(Loss)	A	4,640	
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		<table><tr><td>Segment Profit/(Loss)</td><td>B</td><td>(197)</td></tr><tr><td>Dividend Income</td><td></td><td>285</td></tr><tr><td>Interest Expense</td><td></td><td>43</td></tr><tr><td>Tax Provision</td><td></td><td>1,675</td></tr><tr><td>Capital Expenditure</td><td>A</td><td>1,300</td></tr><tr><td>Capital Expenditure</td><td>B</td><td>16</td></tr><tr><td>Non-Cash Expenses (excluding depreciation)</td><td>A</td><td>114</td></tr><tr><td>Non-Cash Expenses (excluding depreciation)</td><td>B</td><td>16</td></tr><tr><td>Liabilities</td><td>A</td><td>3,430</td></tr><tr><td>Liabilities</td><td>B</td><td>770</td></tr><tr><td>Other Liabilities</td><td></td><td>2,200</td></tr><tr><td>Assets</td><td>A</td><td>19,450</td></tr><tr><td>Assets</td><td>B</td><td>2,700</td></tr><tr><td>Other Assets</td><td></td><td>6,550</td></tr><tr><td>Depreciation</td><td>A</td><td>110</td></tr><tr><td>Depreciation</td><td>B</td><td>15</td></tr></table>	Segment Profit/(Loss)	B	(197)	Dividend Income		285	Interest Expense		43	Tax Provision		1,675	Capital Expenditure	A	1,300	Capital Expenditure	B	16	Non-Cash Expenses (excluding depreciation)	A	114	Non-Cash Expenses (excluding depreciation)	B	16	Liabilities	A	3,430	Liabilities	B	770	Other Liabilities		2,200	Assets	A	19,450	Assets	B	2,700	Other Assets		6,550	Depreciation	A	110	Depreciation	B	15	
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a.	What is the total revenue of Segment A, B to be given in the Segment Report as per AS -17?	3																																																	
	<p>Type your answer here Rs. in lakhs Total Revenue: Segment A = Rs.27,200 Total Revenue: Segment B = Rs.3,280 Total Revenue: Total = Rs.30,430 ROUGH WORK</p> <p style="text-align: right;">(Rs. in lakh)</p> <table><tr><td>Particulars</td><td>Segment A</td><td>Segment B</td><td>Others</td><td>Eliminations</td><td>Total</td></tr><tr><td>Revenue:</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>a) External Revenue</td><td>27,150</td><td>3,280</td><td></td><td></td><td>30,430</td></tr><tr><td>b) Inter segment Revenue</td><td>50</td><td></td><td></td><td>-50</td><td></td></tr><tr><td>Total</td><td>27,200</td><td>3,280</td><td></td><td>-50</td><td>30,430</td></tr></table>	Particulars	Segment A	Segment B	Others	Eliminations	Total	Revenue:						a) External Revenue	27,150	3,280			30,430	b) Inter segment Revenue	50			-50		Total	27,200	3,280		-50	30,430																				
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b.	Determine the total result of Segment A, B and Total to be given in the Segment Report.	3																																																	
	<p>Type your answer here Total Result: Segment A = Rs.4,640 Total Result: Segment B = Rs.(197) Total Result: Total = Rs.3,010 ROUGH WORK</p> <p style="text-align: right;">(Rs. in lakh)</p> <table><tr><td>Particulars</td><td>Segment A</td><td>Segment B</td><td>Others</td><td>Eliminations</td><td>Total</td></tr><tr><td>II Result:</td><td>4,640</td><td>-197</td><td></td><td></td><td>4,443</td></tr><tr><td>a) Income from Investment</td><td></td><td></td><td></td><td></td><td>285</td></tr><tr><td>b) Interest Expenses</td><td></td><td></td><td></td><td></td><td>-43</td></tr></table>	Particulars	Segment A	Segment B	Others	Eliminations	Total	II Result:	4,640	-197			4,443	a) Income from Investment					285	b) Interest Expenses					-43																										
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c) Tax provision					-1,675																
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10.		<p>You are a practicing partner in a firm of Chartered Accountants. Your firm has been appointed as an auditor for a XYZ Manufacturers and Exporters Private Limited. XYZ Manufacturers and Exporters Private Limited is large manufacturing company in Kanpur. They also are established exporters of their manufactured products.</p> <p>During the course of audit, you large sum of money in Fixed Deposits. You requested the management to provide Banker's certificate in support of the Fixed Deposits. The management shows reluctance and after a long wait the management provides only written representation on the matter.</p> <p>You find that XYZ Manufacturers and Exporters Private Limited having its own production capacity also gets the job work done through various job workers. You are confident to consider that inventory held with job workers is material to the financial statements.</p> <p>It is also that some transactions come to your notice which may be related party transactions.</p>																			
	a.	As an auditor how would you deal with the issue related to fixed deposits?	2																		
		<p>Type your answer here</p> <p>Although written representation provides necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representation does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.</p> <p>Applying the above to the given problem, the auditor would further request the management to provide him with the Banker's certificate in support of fixed deposits held by the company.</p>																			
	b.	As you consider that inventory held with job workers is material to the financial statements, suggest the audit procedures which should be followed.	2																		
		<p>Type your answer here</p> <p>When inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:</p> <p>(a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.</p> <p>(b) Perform inspection or other audit procedures appropriate in the circumstances.</p>																			
	c.	How as an auditor would you verify the existence of related party relationships and transactions?	2																		
		<p>Type your answer here</p> <p>During the audit, the auditor should maintain alertness for related party information while reviewing records and documents. He may inspect the following records or documents that may provide information about related party relationships and transactions. Following examples are as follows:</p> <p>a) Entity income tax returns</p> <p>b) Information supplied by the entity to regulatory authorities.</p> <p>c) Shareholder registers to identify the entity's principal shareholders.</p>																			

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