



Time Allowed: 3 Hours

Full Marks: 100

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

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

**ANSWER:****SECTION - A : (Corporate Accounting)**

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

1. (a)

|       |   |
|-------|---|
| (i)   | a |
| (ii)  | c |
| (iii) | d |
| (iv)  | d |
| (v)   | a |
| (vi)  | d |

(b)

|    |       |
|----|-------|
| 1. | False |
| 2. | True  |
| 3. | False |
| 4. | True  |

(c)

|       |                     |
|-------|---------------------|
| (i)   | discount            |
| (ii)  | 12                  |
| (iii) | termination         |
| (iv)  | Unexpired period/12 |

2. (a)

| Particulars   | ₹   |
|---|-----|
| Market value of 4 shares already held by a shareholder @ ₹ 38             | 152 |
| Add: Price to be paid by him for acquiring 3 more shares @ ₹ 11 per share | 33  |
| Total price of 7 shares after rights issue                                | 185 |

(i) Therefore, theoretical market price of one share, (i.e.,  $185/7$ ) = ₹26.43

(ii) Value of Rights = Market Price - Theoretical Market Price = ₹ 38 – ₹ 26.43  
= ₹ 11.57



## CORPORATE ACCOUNTING AND AUDITING

(b) The following redemption plan is recommended:

(1) Number of Shares to be issued

|  | ₹        |
|--|----------|
| Cash balance at present                            | 79,200   |
| Add: Sale of investments                           | 2,16,000 |
|  | 2,95,200 |
| Less: Cash balance to be maintained                | 19,200   |
| Cash available for redemption of preference shares | 2,76,000 |
|  |          |
| Cash required for redemption                       | 5,40,000 |
| Less: Cash available                               | 2,76,000 |
| Cash from New Issue of Shares                      | 2,64,000 |

No. of equity shares to be issued =  $264000/11 = 24000$

- (2) Premium on Redemption of Preference Shares ₹ 40,000  
Less: Securities Premium balance at the time of redemption ₹ 3,0000  
Amount to be adjusted against Profit and Loss Account balance ₹ 10,000  
Note : Premium from new issue cannot be used as per the provisions of the Companies Act.
- (3) Amount to be transferred to Capital Redemption Reserve  
Face value of shares redeemed ₹ 5,00,000  
Less: Proceeds from issue of equity shares (excluding premium) ₹ 2,40,000  
₹ 2,60,000

The company should record the following entries to implement the redemption plan stated above.

In the books of P Ltd

Journal

| Date          | Particulars  | Dr.<br>(₹)         | Cr.<br>(₹) |
|---------------|--|--------------------|------------|
| 2022<br>Jan.1 | 10% Redeemable Preference Shares Capital A/c Dr.<br>Premium on Redemption of Preference Shares A/c Dr.<br>(a) To Preference Shareholders A/c<br>(Being the redemption of 5000, 10% Redeemable Preference Shares of ₹ 100 each at a premium of 8% as per Board's resolution no... dated...) | 5,00,000<br>40,000 | 5,40,000   |

**INTERMEDIATE EXAMINATION****SET 1****MODEL ANSWERS****TERM – JUNE 2023****PAPER - 10****CORPORATE ACCOUNTING AND AUDITING**

|     |   |            |                    |                    |
|-----|---|------------|--------------------|--------------------|
| (b) | Bank A/c<br>Loss on Sale of Investment A/c<br>To Investments A/c<br>(Being the sale of investment at a loss of ₹ 24,000)  | Dr.<br>Dr. | 2,16,000<br>24,000 | 2,40,000           |
| (c) | Profit and Loss A/c<br>To Loss on Sale of Investment A/c<br>(Being the loss on sale of investment transferred to Profit and Loss Account)   | Dr.        | 24,000             | 24,000             |
| (d) | Bank A/c<br>To Equity Shares Application A/c<br>(Being application money received for 24000 shares of ₹11 each including a premium of ₹1 each)  | Dr.        | 2,64,000           | 2,64,000           |
| (e) | Equity Shares Application A/c<br>To Equity Shares Capital A/c<br>To Securities Premium A/c<br>(Being the transfer of application money on 24,000 shares @ ₹ 10 each to Equity Shares Capital Account and @ ₹ 1 to Securities Premium Account as per Board's Resolution No.... dated...) | Dr.        | 2,64,000           | 2,40,000<br>24,000 |
| (f) | Preference Shareholders A/c<br>To Bank A/c<br>(Being an amount paid to preference shareholders for redemption of preference shares.)  | Dr.        | 5,40,000           | 5,40,000           |
| (g) | Securities Premium A/c<br>Profit and Loss A/c<br>To Premium for Redemption of Preference Shares A/c<br>(Being the adjustment of premium on redemption against Securities Premium and Profit and Loss Account balance)   | Dr.<br>Dr. | 30,000<br>10,000   | 40,000             |
| (i) | General Reserve A/c<br>To Capital Redemption Reserve A/c<br>(Being amount equivalent to the face value of shares redeemed out of reserves transferred to CRR)   | Dr.        | 2,60,000           | 2,60,000           |



3. (a)

**Cash Flow Statement for the year ended on 31.03.2022**

| Particulars                               | ₹                | ₹                 |
|---|------------------|-------------------|
| I. Cash flow from operating activities:   |                  |                   |
| Sales (all in cash)                       | 96,00,000        |                   |
| Less: Payment to suppliers                | <u>71,00,000</u> |                   |
|   | 25,00,000        |                   |
| Less: Operating expenses                  | <u>7,20,000</u>  |                   |
|   | 17,80,000        |                   |
| Less: Taxes paid                          | <u>3,00,000</u>  |                   |
|   |                  | 14,80,000         |
| II. Cash flow from investing activities:  |                  |                   |
| Purchase of land                          | (8,00,000)       |                   |
| Purchase of Machinery                     | (4,00,000)       |                   |
| Interest received on investment           | <u>20,000</u>    | (11,80,000)       |
| III. Cash flow from financing activities: |                  |                   |
| Equity Dividend paid                      |                  | <u>(2,40,000)</u> |
|   |                  | 60,000            |
| Add: Opening cash and cash equivalent     |                  | <u>80,000</u>     |
| Closing cash and cash equivalent          |                  | <u>1,40,000</u>   |

(i) Cash flow from operating activities = ₹14,80,000

(ii) Cash flow from investing activities = ₹ (11,80,000)

(iii) Cash flow from financing activities = ₹ (2,40,000)

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

**Statement Showing the Recognition of Income (₹ in Crore)**

| Particulars                                     | Amount (₹) | Amount (₹) |
|---|------------|------------|
| <b>1. Interest on Term Loans</b>                |            |            |
| (i) Performing Assets                           | 120        |            |
| (ii) Non-performing Assets                      | 5          |            |
|   |            | 125        |
| <b>2. Interest on Cash Credit and Overdraft</b> |            |            |
| (i) Performing Assets                           | 750        |            |
| (ii) Non-performing Assets                      | 12         |            |
|   |            | 762        |



|  |     |      |
|--|-----|------|
| <b>3. Interest on Bills Purchased and Discounted</b> |     |      |
| (i) Performing Assets                                | 150 |      |
| (ii) Non-performing Assets                           | 20  | 170  |
| <b>Income to be recognized</b>                       |     | 1057 |

4. (a) Notes to Accounts:

|   |   |  |   |
|---|---|--|---|
| 1. Employee Benefit Exp.<br>Salaries 6,72,000<br>Contribution to P.F 1,00,000<br>72,000   | 2. Finance Cost:<br>Interest on loan 22,500<br>Outstanding Int. 7,500<br>30,000 | 3. Other Exp.<br>Discount 7,500<br>Carriage 1,50,000<br>Rent 50,000<br>Advertisement 1,50,000<br>Bad Debt 20,000<br>Audit fees 20,000<br>Misc. Exp. 10,000<br>Provision for B/D 38,250<br>4,45,750 | ₹ |
| 4. Trade Receivable:<br>Total receivable 10,00,000<br>(-) Provision @ 2% 38,250<br>9,61,750<br>Provision =<br>25000*0.75+(1000000-<br>5000)x0.02 = 38,250 | 5. PPE<br>Balance<br>(-) Depreciation<br>Total Fixed Assets<br>Depreciation     | Motor Van<br>4,00,000<br>40,000<br>3,60,000<br>Machine<br>20,00,000<br>4,00,000<br>16,00,000<br>L & B<br>12,00,000<br>60,000<br>11,40,000<br>31,00,000<br>5,00,000                                 |   |

Statement of Profit and Loss for the year ended on 31.03.2022

| Particulars  | Note | ₹         |
|--|------|-----------|
| I. Revenue from operation (sales less returns)               |      | 57,00,000 |
| II. Other Income (Income from investment)                    |      | 24,000    |
| III. Total revenue   |      | 57,24,000 |
| IV. Expenses:  |      |           |
| Purchase (less return)                                       |      | 32,00,000 |
| Changes in inventory i.e., opening less. Closing             |      | (50,000)  |
| Employee Benefit expenses                                    | 1    | 7,72,000  |
| Finance cost   | 2    | 30,000    |
| Depreciation   | 5    | 5,00,000  |
| Other expenses   | 3    | 4,45,750  |
|  |      | 48,97,750 |
| V. Profit before exceptional and extraordinary items and tax |      | 8,26,250  |



## CORPORATE ACCOUNTING AND AUDITING

|  |  |          |
|--|--|----------|
| VI. Exceptional items                        |  | Nil      |
| VI Profit before extraordinary items and tax |  | 8,26,250 |
| VII. Extraordinary items                     |  | Nil      |
| VIII. Profit before tax                      |  | 8,26,250 |
| IX. Tax (provision for tax)                  |  | 1,50,000 |
| X. Profit after tax                          |  | 6,76,250 |

## Balance Sheet as on 31.03.2022

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

- (b) The company shall disclose ratios such as:
- Current Ratio,
  - Debt-Equity Ratio,
  - Debt Service Coverage Ratio,
  - Return on Equity Ratio,
  - Inventory turnover ratio,
  - Trade Receivables turnover ratio,



## CORPORATE ACCOUNTING AND AUDITING

- (g) Trade payables turnover ratio,
- (h) Net capital turnover ratio,
- (i) Net profit ratio,
- (j) Return on Capital employed,
- (k) Return on investment.

Explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.

## 5. (a)

**Increase in Earnings Attributable to Ordinary Shareholders  
on Conversion of Potential Ordinary Shares**

| Sl. No. | Potential Ordinary Shares     | Effect  | Increase in earnings | Increase in No. of Ordinary shares on Conversion | Earnings per incremental share |
|---------|-------------------------------|---|----------------------|--|--------------------------------|
| 1.      | Options                       | (a) Increase in earnings<br>(b) Incremental shares for no consideration<br>$[100000 \times (75-60)]/75$         | Nil                  | 20,000   | N. A                           |
| 2.      | Convertible Preference shares | (a) Increase in earnings<br>$(800000 \times 100 \times .08)$<br>(b) Incremental shares                          | 64,00,000            | 16,00,000  | 4.00                           |
| 3.      | 5% Convertible Bonds          | (a) Increase in earnings<br>$10,00,000 \times .05 \times (1-.4)$<br>(b) Incremental shares for no consideration | 30,00,000            | 20,00,000  | 1.50                           |

So, the order of dilutive instruments is as follows:

1. Options
2. 5% Convertible Bonds
3. Convertible Preference Shares



## Computation of Dilutive EPS

| Sl. No. | Particulars                   | Profit Attributable | No. of Equity Shares | Profit Attributable per share |
|---------|-------------------------------|---------------------|----------------------|-------------------------------|
| 1.      | As reported                   | 50,00,000           | 20,00,000            | 5.00                          |
| 2.      | Options:                      |                     |                      |                               |
|         | Increase in earnings          | Nil                 |                      |                               |
|         | Increase in no. of shares     |                     | 20,000               |                               |
|         | Total                         | 50,00,000           | 20,20,000            | 2.47                          |
| 3.      | 5% Convertible Bonds          |                     |                      |                               |
|         | Increase in earnings          | 30,00,000           |                      |                               |
|         | Increase in no. of shares     |                     | 20,00,000            |                               |
|         | Total                         | 80,00,000           | 40,20,000            | 1.99                          |
| 4.      | Convertible Preference Shares |                     |                      |                               |
|         | Increase in earnings          | 64,00,000           |                      |                               |
|         | Increase in no. of shares     |                     | 16,00,000            |                               |
|         | Total                         | 1,44,00,000         | 56,20,000            | 2.56                          |

- (b) Bonus is nothing but the share of profit which is payable by the insurance company to the policyholders. There are five basic types of bonuses in insurance. These are as follows:
- (i) **Simple Reversionary Bonus** - It is a percentage of the sum assured that is added to the policy every year until maturity or the death claim.
  - (ii) **Compound Reversionary Bonus** - It is a bonus calculated as a percentage of the sum assured and the bonus accrued last year. It is again paid as a part of the maturity benefit or death benefit.
  - (iii) **Interim Bonus** - Bonus is accrued in a life insurance policy every year. However, there is a chance that the death claim occurs before the next declaration. Hence, insurers declare an interim bonus to set the policyholder's family at an advantage and benefit from the bonus amount.
  - (iv) **Cash Bonus** - In a cash bonus, the insurance company will declare the bonus and make it available for the policyholder to receive it as cash in hand.
  - (v) **Terminal Bonus** - Terminal Bonus is a one-time bonus in insurance paid when the policyholder runs through the entire policy term or a period specified by the insurer.





## SECTION - B : (Auditing)

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

6. (a)

|       |   |
|-------|---|
| (i)   | a |
| (ii)  | b |
| (iii) | c |
| (iv)  | a |
| (v)   | c |
| (vi)  | c |

(b)

|    |       |
|----|-------|
| 1. | False |
| 2. | False |
| 3. | False |
| 4. | False |

(c)

|       |                                     |
|-------|-------------------------------------|
| (i)   | CRA - 1                             |
| (ii)  | Registrar of Co-operative Societies |
| (iii) | three                               |
| (iv)  | trading                             |

7. (a) As per SA-500, relevance of audit evidence deals with the logical connection with the purpose of audit procedure and is therefore affected by the direction of testing. On the other hand, the reliability of audit evidence depends on its source - internal or external and on its nature - visual, documentary or oral. While the reliability of audit evidence is dependent on the circumstances under which it is obtained, the following generalizations may be useful in assessing the reliability of audit evidence:
- External evidence (e.g., confirmation received from a third party) is generally more reliable than internal evidence;
  - Internal evidence is more reliable when related internal control is satisfactory;
  - Evidence in the form of documents and written representation is usually more reliable than oral representations;
  - Evidence obtained by the auditor himself is more reliable than that obtained through the entity.



## CORPORATE ACCOUNTING AND AUDITING

- (b) As per SA 610, *Using the Work of Internal Auditor*, the external auditor can use the work of an internal auditor after conducting an evaluation of internal audit functions.

Accordingly, the external auditor shall consider the following factors to determine the extent to which he can rely on the work of an internal auditor:

- (i) whether internal audit is undertaken by an outside agency or by a separate audit department within the entity.
- (ii) the scope of internal audit, management action and the internal audit report.
- (iii) experience and qualification of internal auditor.
- (iv) the technical compliance by internal auditor.
- (v) authority vested on internal auditor and level of management to whom he is accountable.
- (vi) whether professional care has been taken by the internal auditor in conducting audit work.

After the evaluation, if the external auditor is satisfied with all the above criteria and if the law doesn't prohibit, he can decide to rely upon the work of an internal auditor.

The external auditor, in such a case, shall discuss his plans to use direct assistance of the internal audit function with the internal auditor. He shall carefully undergo the reports of internal audit function and obtain an understanding of the nature and extent of the audit procedures that has been applied and the related findings. In addition, the external auditor shall also perform sufficient and appropriate audit procedure on the body of work of the internal audit function as a whole to determine its adequacy for purposes of the statutory audit. He shall also inform the management about his decision to rely on the internal audit function.

However, the reliance of a statutory auditor on the work of the internal auditor can, in no way, reduce his responsibility and he will be held responsible for all damages arising out of any material misstatement in the accounts remaining undetected because of his reliance on the work of the internal auditor.

8. (a)

• **Applicability of Secretarial Audit**

As per the provision of Section 204(1) of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014:

1. Every listed company;
2. Every public company having a paid-up share capital of 50 crore rupees or more; or

**CORPORATE ACCOUNTING AND AUDITING**

3. Every public company having a turnover of 250 crore rupees or more; or
4. Every company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more,  
- is required to annex with its Board's Report made in terms of Section 134(3) of the Companies Act, 2013, a Secretarial Audit Report, given by a Company Secretary in practice, in Form MR-3.

- **Appointment of Secretarial Auditor**

As per Rule 8 of the Companies (Meetings of Board and its Powers) Rules, 2014, read with Section 179 of the Companies Act, 2013, secretarial auditor is required to be appointed by means of resolution at a duly convened board meeting.

It is advisable for the Secretarial Auditor to get a letter of engagement from the company. Secretarial Auditor should accept the letter of engagement.

The company shall report any change in the secretarial auditor during the financial year to the members through the Board's Report. The qualifications, observations or comments / remarks of the secretarial Audit Report shall be read at the annual general meeting of the company along with the explanation and comments of the Board of Directors (Clause 13 of Secretarial Standard 2).

**(b)** The benefits of joint audit are as follows:

- a) Joint audit reduces the workload of a single auditor.
- b) Since different auditors may be engaged to handle different parts of accounts, timely completion of work is possible even in a large organisation.
- c) The auditors may share their expertise and solve critical problems in the process.
- d) Joint audit improves the quality of audit work to a great extent.
- e) There may be healthy competition among the auditors which improves the quality and speed of the audit work.
- f) Under joint audit, it is possible to get the benefit of extensive knowledge of different auditors at the same time.

The limitations of joint audit are enumerated below:

- a) Established auditors may have a superiority complex over the less experienced one.
- b) It is not suitable for a small entity due to substantial cost burden.
- c) At times, lack of coordination among the auditors may slow down the speed of work.



## CORPORATE ACCOUNTING AND AUDITING

- d) There may be uncertainty about the liability of any work.
- e) Areas of common concern may be neglected.
- f) The auditors have to share the fees.

9. (a) PQR & Co. should follow the audit procedure mentioned below in this context.
- (i) The auditor should collect a statement or list containing every detail regarding the unpaid dividend such as the names of the shareholders, dividend payable to them, dividend warrant number, reason for the dividend remaining unpaid etc.
  - (ii) The auditor shall conduct an enquiry to identify whether there was any fault on the part of the company.
  - (iii) The auditor shall verify the statement provided by the management in this respect with other supporting documents like Dividend Register, Returned Warrants, bank statement, etc. and shall determine whether the dividend amount has been accurately calculated.
  - (iv) The auditor shall also verify whether the unpaid dividend has been transferred to a separate account namely Unpaid Dividend Account within seven days from the expiry of 30 days allowed for declaration and payment of dividend.
  - (v) The auditor must verify whether there is any fault on the part of the company and if so whether they have deposited the interest and the penalty.
  - (vi) The auditor shall also verify whether the company has published the details of unpaid dividend in its own website and also in other website(s) approved by the government for this purpose.
  - (vii) Since the amount of dividend is remaining unpaid for more than seven years, the auditor shall verify whether the same along with the interest accrued thereon has been transferred by the company to Investor Education and Protection Fund.
  - (viii) The auditor shall also verify whether all the shares in respect of which unpaid dividend has been transferred to Investor Education and Protection Fund, have also been transferred to such fund.

(b)

| Sl. No. | Points         | Auditor's Report   | Auditor's Certificate  |
|---------|----------------|--|--|
| 1.      | Nature         | It is an expression of opinion about the financial statements. | It is a confirmation of correctness and accuracy about some matters. |
| 2.      | Basis of audit | The report is based on assumptions and estimations             | The certificate is based on actual figures and facts.                |



## CORPORATE ACCOUNTING AND AUDITING

|    |                      |  |   |
|----|----------------------|--|---|
| 3. | Advice               | In audit report, there is a scope of giving constructive advice to the company.  | No scope of constructive advice exists in the case of the certificate.  |
| 4. | Guarantee            | Audit report is an opinion by the auditor and does not guarantee the accuracy of the financial statements  | Audit certificate is a formal statement by the auditors which guarantee the accuracy of the facts stated therein. |
| 5. | Time of issue        | The report is submitted to the appointing authority only after the audit is complete.  | Certificates are issued as and when required.   |
| 6. | Liability of auditor | As a report is merely an opinion, if it is not correct, the auditor may not be held responsible, unless he is found to be negligent to his duty. | In case of the wrong certificate, the auditor will be held responsible.   |

10. (a) Educational institutions of any state in India are generally established and run under the Societies Registration Act 1960 or Public Trust Act of the state concerned. Similarly, central educational institutions are guided by the respective regulations issued by the Ministry of Education from time to time. In some cases, large educational institutions like universities are established by Central or State governments by enacting special legislation.

**Audit procedure to verify the receipts related transactions:**

- (i) **Tuition Fees:** Tally the counterfoils of fee receipt with fee register to see whether they have been duly recorded or not. Check the register to identify whether all the students have paid their fees in due time. If any student has deposited the fees beyond the due date, check whether late fine has been charged or not and whether the same has been properly recorded. See whether all collections are deposited in the bank account at the end of the day.
- (ii) **Admission Fees:** Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund, unless the Managing Committee has taken a decision to the contrary.
- (iii) **Other Fees:** Verify the collection of other fees such as library fees, session fees or development fees, fees for hostel etc. based on the counterfoils and fee registered and ensure that the fees have been accounted for in appropriate heads.



**CORPORATE ACCOUNTING AND AUDITING**

- (iv) See that all arrears on account of fees, fines, etc. have been taken into consideration at the end of accounting period. See that free studentship and concessions have been granted by an authorised person only.
  - (v) Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
  - (vi) Verify grants received from Government or other organisations based on the sanction letter and bank statement.
  - (vii) Ensure that donation received, if any, has been acknowledged and recorded properly in the books of accounts.
  - (viii) Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.
- (b)** Permanent audit file contains all the documents which are of continuing importance for the audit of succeeding years.
- Accordingly, permanent audit file contains documents such as:
- (i) Legal and organizational structure of the entity, e.g., Memorandum of Association and Article of Association in case of a company;
  - (ii) Extracts or copies of legal documents, agreements and minutes relevant to the audit;
- On the other hand, temporary audit file contains documents relevant for the audit of the current year only.
- Accordingly, current audit file contains documents such as:
- (i) Correspondence relating to acceptance of annual reappointment.
- Extracts of important matters in the minutes of Board Meetings and General Meetings relevant to the audit.