CORPORATE ACCOUNTING AND AUDITING

Time Allowed: 3 Hours **Full Marks: 100**

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

SECTION – A (Compulsory)

1. Choose the correct option: **[15 x 2 = 30]**

(i) Which of the following is not a Free Reserve?

- **a. General Reserve**
- **b. Dividend Equalization Reserve**
- **c. Revaluation Reserve**
- **d. Revenue Reserve**

(ii) Instalment of principal amount of long-term loan payable within next 12 months is shown under Balance Sheet of a company under the heading.

- **a. Non-current Assets**
- **b. Non-current Liabilities**
- **c. Current Assets**
- **d. Current Liabilities**

(iii) Depreciation is added back to profit when arriving at the cash flow from operating activities as ________________.

- a. **Depreciation is a non-cash expenditure**
- b. **Depreciation does not affect profit**
- c. **Depreciation only affects the balance sheet, not the profit and loss account**
- d. **None of Above**

(iv) Rate of provision on advances doubtful for more than 3 years is __________.

- a. **40%**
- b. **25%**
- c. **100%**
- d. **Nil**

(v) If the net profits earned during the year is ₹50,000 and the bills receivables have decreased by ₹10,000 during the year then the cash flow from operating activities will be equal to:

- a. **₹30,000**
- b. **₹40,000**
- c. **₹50,000**
- d. **₹60,000**

(vi) Which of the following is not a step of Audit Sampling?
- a. Sample Design
- b. Sample Size Determination
- c. Sample Selection
- d. Sample Displaying

(vii) Which of the following is/are benefits of Internal Financial Control?
- a. Improved controls over financial reporting process
- b. Trickling down of accountability to operational management
- c. Improved investor confidence in entity's operations and financial reporting process
- d. All of the above

(viii) The company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within fifteen days of the meeting in which the auditor is appointed in Form __________.
- a. ADT-1
- b. ADT-2
- c. ADT-3
- d. None of these

(ix) Permanent Audit File does not contain?
- a. A record of study and evaluation of internal control system
- b. Significant audit observations of earlier years
- c. Copies of management letters
- d. Analysis of significant ratios and trends

(x) SA 530 stands for____________________.
- a. Audit Documentation
- b. Audit Sampling
- c. Responsibility of Joint Auditor
- d. Agreeing the terms of Audit Engagements

(xi) Which of the following is not a content of audit report?
- a. Signature of the auditor
- b. Date of the report
- c. Attachment of audit evidences
- d. Auditor's address

(xii) Secretarial Audit is covered under section___________.
- a. Section 204
- b. Section 148
- c. Section 139
- d. None of the above

(xiii) **Test checking requires application of ___________________.**
- a. mathematical theory
- b. sampling theory
- c. geometry theory
- d. stakeholder theory

(xiv) **A cost auditor submits his report along with reservations and observations in Form No.**
- a. CRA 1
- b. CRA 2
- c. CRA 3
- d. CRA 4

(xv) **Which of the following is not a part of Temporary Audit file?**
- a. Correspondence relating to acceptance of annual reappointment
- b. Audit programme
- c. Extracts of minutes of board meetings
- d. Legal and organisation structure of the company

Answer:

i	ii	iii	iv	v	vi	vii	viii	ix	x
b.	d.	a.	c.	d.	d.	d.	a.	c.	b.
xi	xii	xiii	xiv	xv					
c.	a.	b.	c.	d.					

SECTION – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks.)

2. (a) Prepare journal entries for the following:

(i) **PK Ltd. forfeited 10,000 equity shares of ₹10 each for non-payment of first call of ₹2 and final call of ₹3 per share. These shares were reissued at a discount of ₹3.50 per share.**

(ii) **KP Ltd. forfeited 20,000 equity shares of ₹15 each (including ₹5 per share as premium), for non-payment of final call of ₹3 per share. Out of these 10,000 shares were reissued at a discount of ₹4 per share.**

(iii) **KP Ltd. forfeited 15,000 equity shares of ₹15 each (including ₹5 per share as premium), for non-payment of allotment money ₹8 (including premium money) and**

first & final call of ₹5 per share. Out of these 10,000 shares were reissued at ₹14 per share. **[7]**

Answer:

2.(a)

In the books of ....

	Particulars	Dr. ₹	Cr. ₹
a)	Equity Share Capital A/c Dr. To Calls-in-arrear A/c To Forfeited Share A/c (10,000 shares forfeited for non-payment of first and final call money)	1,00,000	 50,000 50,000
	Bank A/c Dr. Forfeited Share A/c Dr. To Equity Share Capital A/c (Reissue of 10,000 sh. @ ₹ 6.50 each)	65,000 35,000	 1,00,000
	Forfeited Share A/c Dr. To Capital Reserve A/c (Balance of Forfeited Share Account transferred)	15,000	 15,000
b)	Equity Share Capital A/c Dr. To Calls in Arrear A/c To Forfeited Share A/c (20,000 shares forfeited for non-payment of final call money)	2,00,000	 60,000 1,40,000
	Bank A/c Dr. Forfeited Share A/c Dr. To Equity Share Capital A/c (Reissue of 10,000 sh. @ ₹ 6 each)	60,000 40,000	 100,000
	Forfeited Share A/c Dr. To Capital Reserve A/c (Balance of Forfeited Share A/c relating to 10,000 shares transferred) [10,000 × (7- 4)]	30,000	 30,000
c)	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Calls-in-arrear A/c To Forfeited Share A/c (15,000 shares forfeited for non- payment of allotment and first and final call money)	150,000 75,000	 1,95,000 30,000
	Bank A/c Dr. To Security Premium A/c To Equity Share Capital A/c (Reissue of 10,000 sh. @ ₹ 15 each)	140,000	 40,000 100,000
	Forfeited Share A/c Dr. To Capital Reserve A/c (Balance of Forfeited share A/c on 10,000 shares transferred) (10,000×2)	20,000	 20,000

(b) **The Balance Sheet of Pixel Ltd. as on 31.12.2023 is given below**

Liabilities	₹ in Lakh	Assets	₹ in Lakh
Share Capital:		Fixed Assets	140
10,00,000 Equity shares of ₹10 each	100	Investments	40
1,00,000 Redeemable Pref. shares of ₹100 each	100	Stock	46
Less: Call-in-arrears on 20,000 shares	(4)	Debtors	30
Security premium account	15	Bank	30
Reserve	30		
Profit and Loss account	15		
Creditors	30		
	286		286

On 1st Jan 2024, fixed assets costing ₹40 Lakh were sold for ₹32 Lakh. It was decided that on 1st Feb 2024, company issued sufficient number of equity shares at par so as to finance redemption (at 20% premium) and to leaving a balance of ₹10 Lakh in the reserve. All the payments were made except to a holder of 10,000 shares who could not be traced. The company also made bonus issue to the existing equity shareholders in the ratio of 1: 10 as on 31.12.2023. You are required to pass the necessary journal entries. **[7]**

Answer:
2.(b)

Workings: **Requirement of Fund for Redemption**

Particular	No.	Rate	₹ in Lakhs
Pref Shares	1,00,000	100%	100
Calls in Arrear	20,000	100%	20
Bal. to be redeemed	80,000		80
Prem on redemption		20%	16
Total Fund requirement			96

(₹ in Lakhs)

Sources	Nominal Value	Premium	Total
Requirement	80	16	96
Securities Prem. A/c		15	15
P/L A/c	6	1	7
General Reserve	20		20

Balance fund requirement (From fresh issue)	60		60
New Issue	60		

Actual payment made = (80,000 -10,000)*120 = ₹84 Lakh

**Bonus Shares = 10,00,000 × 1/10 = 1,00,000 @ ₹10 = ₹10 Lakhs.

Transfer to Capital Redemption Reserve	₹ in Lakh	₹ in Lakh
From P/L A/c		
Balance	15	
Less: Loss on Sale of Assets	8	
Balance	7	
Less: Used for Premium on Redemption of Pref. Shares	1	6
From General Reserve		20
Total		26

In the books of Pixel Ltd.
Journal

Particulars		Dr. ₹ in Lakh	Cr. ₹ in Lakh
Bank A/c Profit and Loss A/c To Fixed Assets A/c (Sale of Fixed Assets, Loss transferred)	Dr. Dr.	32 8	 40
Bank A/c To Equity Share Capital A/c (Issue of new shares)	Dr.	60	 60
Red. Pref. Share Capital A/c Premium on Redemption A/c To Red. Pref. Shareholders A/c (Amount due on Redemption)	Dr. Dr.	80 16	 96
General Reserve A/c Profit and Loss A/c To Capital Redemption Reserve A/c (Transfer)	Dr. Dr.	20 6	 26
Securities Premium A/c Profit and Loss A/c To Premium on Redemption A/c (Transfer)	Dr. Dr.	15 1	 16
Red. Pref. Shareholders A/c To Bank A/c (Payment to Pref. Shareholders)	Dr.	84	 84

Capital Redemption Reserve A/c To Bonus to Shareholders A/c (Bonus declared)	Dr.	10	 10
Bonus to Shareholders A/c To Equity Share Capital A/c (Conversion of Bonus Shares to Equity Shares)	Dr.	10	 10

3. PQR Ltd. was registered with a nominal capital of ₹20,00,000 divided into shares of ₹100 each. The following Trial Balance is extracted from the books on 31st March, 2023:

Particulars	₹	Particulars	₹
Buildings	11,60,000	Sales	20,80,000
Machinery	4,00,000	Outstanding Expenses	8,000
Closing Stock	3,60,000	Provision for Doubtful Debts (1.4.2022)	12,000
Loose Tools	92,000	Equity Share Capital	8,00,000
Purchases (Adjusted)	8,40,000	General Reserve	1,60,000
Salaries	2,40,000	Profit and Loss A/c (31.03.2022)	1,00,000
Directors' Fees	40,000	Creditors	3,68,000
Rent	1,04,000	Provision for depreciation:	
Depreciation	80,000	On Building	2,00,000
Bad Debts	24,000	On Machinery	2,20,000
Investment	4,80,000	14% Debentures	8,00,000
Interest accrued on investment	8,000	Interest on Debentures accrued but not due	56,000
Debenture Interest	1,12,000	Interest on Investments	48,000
Advance Tax	2,40,000	Unclaimed dividend	20,000
Sundry expenses	72,000		
Debtors	5,00,000		
Bank	1,20,000		
	48,72,000		48,72,000

You are required to prepare Statement of Profit and Loss for the year ending 31st March, 2023 and Balance sheet as at that date after taking into consideration the following information: [14]

(i) Closing stock is more than opening stock by ₹3,20,000.

(ii) Provide to doubtful debts @ 4% on Debtors.

(iii) Make a provision for income tax @30%.

(iv) Depreciation expense included depreciation of ₹32,000 on Building and that of ₹48,000 on Machinery.

(v) Transfer to General Reserve @ 10%.

(vi) The directors proposed a dividend @ 25%. Bills Discounted but not yet matured ₹ 40,000.

Answer:

3. **PQR Ltd.**

Profit and Loss Statement for the year ended 31st March, 2023

Particulars	₹
I. Revenue from operations	20,80,000
II. Other income (interest on investment)	48,000
III. Total Revenue [I + II]	21,28,000
IV. Expenses:	
Cost of purchase [8,40,000+3,20,000]	11,60,000
Changes in inventories [40,000-3,60,000]	(3,20,000)
Employee Benefits Expense	2,40,000
Finance Costs (debenture interest)	1,12,000
Depreciation and Amortisation Expenses	80,000
Other Expenses	2,48,000
Total Expenses	15,20,000
V. Profit before Tax (III-IV)	6,08,000
VI. Tax Expenses @ 30%	1,82,400
VII. Profit for the period	4,25,600

Balance Sheet as on 31.03.2023

Particulars		₹
I EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
Share Capital	1	8,00,000
Reserves and Surplus	2	6,85,600
(2) Non-Current Liabilities		
Long-term Borrowings (14% debentures)		8,00,000
(3) Current Liabilities		
Trade Payable (Sundry Creditors)		3,68,000
Other Current Liabilities	3	84,000
Short-Term Provisions	4	1,82,400
Total		**29,20,000**
II ASSETS		
(1) Non-Current Assets		
(a) PPE and Intangible Assets		
PPE	5	11,40,000
(b) Non-current Investments		4,80,000
(2) Current Assets		
Inventories	6	4,52,000
Trade Receivables	7	4,80,000
Cash and bank balances		1,20,000
Short Term Loans and Advances		
(Advance Payment of Tax)		2,40,000

Other Current Assets		
(Interest accrued on investments)		8,000
Total		**29,20,000**

Note: Contingent Liability for bills discounted but not yet matured ₹ 40,000. Note: Contingent Liability for Proposed dividend ₹ 2,00,000.

Notes to Accounts:

Sl. No.	Particulars	₹	₹
1.	Share Capital		
	Authorized Capital		
	20,000 Equity Shares of ₹100 each		20,00,000
	Issued Capital		
	8000 Equity Shares of ₹100 each		8,00,000
	Subscribed and Paid up Capital		
	8000 Equity Shares of ₹100 each		8,00,000
2.	Reserve and Surplus		
	General Reserve [₹1,60,000 + ₹42,560]		2,02,560
	Balance of Statement of Profit & Loss Account		
	Opening Balance	1,00,000	
	Add: Profit for the period	4,25,600	
		5,25,600	
	Appropriations		
	Transfer to General Reserve @ 10%	(42,560)	
			4,83,040
			6,85,600
3.	Other Current Liabilities		
	Unclaimed Dividend	20,000	
	Outstanding Expenses	8,000	
	Interest accrued on Debentures	56,000	
		84,000	
4.	Short Term Provision		
	Provision for Tax	1,82,400	
5.	Tangible Assets		
	Buildings	11,60,000	
	Less: Provision for Depreciation	2,00,000	
			9,60,000
	Plant and Equipment	4,00,000	
	Less; Provision for Depreciation	2,20,000	
			1,80,000
			11,40,000
6.	Inventories		
	Closing Stock of Finished Goods	3,60,000	
	Loose Tools	92,000	
			4,52,000
7.	Trade Receivables		

	Sundry Debtors	5,00,000	
	Less: Provision for Doubtful Debts	20,000	
			4,80,000
8.	Other Expenses		
	Rent		1,04,000
	Directors' Fees		40,000
	Bad Debts		24,000
	Provision for Doubtful Debts (4% of ₹5,00,000 less. ₹12,000)		8,000
	Sundry Expenses		72,000
			2,48,000
9.	Proposed Dividend (8,00,000 × 25%)		2,00,000

Note: Total purchase is obtained by adding back the changes in inventory to Adjusted Purchase.

4. (a) On 31 March, 2021 Victory Bank Ltd. had a balance of ₹18 crores in Rebate on Bill Discounted A/c. During the year ended 31st March, 2022, Victory Bank Ltd. discounted bills of exchange of ₹8,000 crores charging interest at 18% p.a., the average period of discount being for 73 days. Of these, bills of exchange of ₹1,200 crores were due for realization from the acceptor/customers after 31st March, 2022, the average period outstanding after 31st March, 2022 being 36.5 days. Victory Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to:

(i) Discounting of Bills of Exchange; and

(ii) Rebate on bill Discounted. **[7]**

Answer:

4.(a) **In the books of Victory Bank Ltd.**

Journal **(₹ in Crore)**

Date	Particulars	Dr. (₹)	Cr. (₹)
1.4.22	Rebate on Bill Discounted A/c Dr. To, Discount on Bills A/c (Being the transfer of opening balance to Rebate on Bill Discounted Account)	18.00	 18.00
	Bills Purchased and Discounted A/c Dr. To, Client A/c To, Discount on Bills A/c [₹8,000 x 18/100 x 73/365] (Being the discounting of bills during the year)	8,000	 7,712.00 288.00
31.3.22	Discount on bills A/c Dr. To, Rebate on Bills Discounted A/c (Being the Provision for unexpired discount as on 31.03.2012)	21.60	 21.60
31.03.22	Discount on bills A/c Dr. To, Profit and Loss A/c (Being the amount of income for the year from discounting of bills of exchange transferred to Profit and Loss Account)	284.40	 284.40

Ledger of Victory bank Ltd.

Rebate on Bills Discounted Account (₹ In Crores)

Dr. **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
01.4.21	To, Discount on bills A/c	18.00	01.4.21	By balance b/d	18.00
31.03.22	To balance c/d	21.60	31.3.22	By Discount on bills A/c (Rebate required)	21.60
		39.60			39.60

Discount on Bills Account (₹ In Crores)

Dr. **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
31.03.22	To Rebate on Bills Discount A/c	21.60	01.4.21	By Rebate on Bills Discounted A/c	18.00
31.03.22	To Profit and Loss A/c (Transfer)	284.40	2021-22	By Bills Purchased and Discount A/c	288.00
		306.00			306.00

(b) From the following figures appearing in the books of Fire Insurance division of a General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2023:

Particulars	Direct Business	Re-Insurance
	₹	₹
Claim paid during the year	**46,70,000**	**7,00,000**
Claim Payable — 1st April, 2022	**7,63,000**	**87,000**
31st March, 2023	**8,12,000**	**53,000**
Claims received	**–**	**2,30,000**
Claims Receivable — 1st April, 2022	**–**	**66,000**
31st March, 2023	**–**	**1,13,000**
Expenses of Management	**2,30,000**	**–**
(includes ₹ 35,000 Surveyor's fee and ₹ 45,000		
Legal expenses for settlement of claims)		

[7]

Answer:

4.(b) **General Insurance Company**

(Abstract showing the amount of claims)

Particulars	**₹ '000**	**₹ '000**
Claims less Re-insurance :		
Paid during the year	52,20	
Add : Outstanding claims at the end of the year	7,52	
	59,72	
Less : Outstanding claims at the beginning of the year	7,84	51,88

Working Notes:

	Particulars	**₹ '000**	**₹ '000**
1.	Claims paid during the year		
	Direct business	46,70	
	Reinsurance	7,00	53,70
	Add : Surveyor's fee	35	
	Legal expenses	45	80
			54,50
	Less : Claims received from re-insurers		2,30
			52,20
2.	Claims outstanding on 31st March, 2023		
	Direct business	8,12	
	Reinsurance	53	8,65
	Less : Claims receivable from re-insurers		1,13
			7,52
3.	Claims outstanding on 1st April, 2022		
	Direct business	763	
	Reinsurance	87	8,50
	Less : Claims receivable from re-insurers		66
			7,84

5. **(a) The following information applies to a company's defined benefit pension plan for the year:**

FMV of plan assets (beginning of the year) **₹2,00,000**

FMV of plan assets (end of the year) **₹2,85,000**

Employer's contribution **₹ 70,000**

Benefit paid **₹ 50,000**

Calculate the actual return on plan assets. **[7]**

Answer.

5.(a)

Particulars	₹	₹
Change in plan assets (2,85,000 – 2,00,000)		85,000
Adjustments:		
Employer's contribution	70,000	
Less: Benefit paid	50,000	20,000
Actual return on plan assets		65,000

(b) The total stock of A Ltd. as on 31.3.2023 was ₹5,00,000 of which stock amounting to ₹31,000 were not ascertained as per Ind AS 2.
Compute the value of the said stocks as per Ind AS 2 for inclusion in financial statements as on that date.

Type of Product	Cost of Materials (₹)	Production Expenses incurred (₹)	Selling and Distribution expense to be incurred (₹)	Estimated Selling Price (₹)
P	10,000	2,000	1,000	15,000
S	5,000	---	500	4,500
T	12,000	3,000	2,000	18,000
	27,000	5,000	3,500	37,500

[7]

Answer :

5.(b) As per Ind AS 2, inventories are usually written-down to net realisable value on item-by-item basis. Thus, value of stock will be computed as:

Type of Product	Cost Price (including Production Exp.)(₹)	Net Realizable Value (excluding Selling & Distribution Expenses from Selling Price) (₹)	Value of Stock to be taken (lower of Cost Price & Net Realizable Value) (₹)
P	12,000 (₹ 10,000 + ₹ 2,000)	14,000 (₹15,000 – ₹ 1,000)	12,000
S	5,000	4,000 (₹ 4,500 – ₹500)	4,000
T	15,000 (₹ 12,000 + ₹ 3,000)	16,000 (₹18,000 – ₹ 2,000)	15,000
			31,000

So, Value of Stock will be ₹31,000 for inclusion in financial statements as per Ind AS 2.

6. (a) Describe the contents of Audit Working Papers. [7]

Answer:

As per SA-230, 'Audit Documentation', an auditor should follow the guidelines mentioned below to decide on the form, content and extent of audit documentation (or working papers).

(i) The auditor shall prepare audit working papers on a timely basis. They should be prepared while performing the task itself rather than after the audit work is performed.

(ii) The auditor shall prepare audit working papers that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
- the nature, timing and extent of audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;
- the results of the audit procedures performed and the audit evidence obtained; and
- significant matters arising during the audit, the conclusion reached thereon and significant professional judgments made in reaching those conclusions.

(iii) In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:
- the identifying characteristics of the specific items or matters tested;
- who performed the audit work and the date such work was performed; and
- who reviewed the audit work performed and the date and extent of such review.

(iv) The auditor shall document discussions of significant matters with management, those charged with governance and others, including the nature of the significant matters discussed and when and with whom the discussions took place.

(v) If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

(vi) If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA, the auditor shall document how the alternative audit procedures performed achieved the aim of that requirement, and the reasons for the departure.

(b) P Ltd. is an unlisted public company with an authorised capital of ₹100 crore. The issued and paid-up capital of the company is ₹45 crore. During the financial year 2020-21, the company has been able to achieve a turnover of ₹225 crore. The company has taken a bank loan of ₹110 crore in the current financial year for business expansion. The company secretary of P Ltd. has asked for your opinion as a legal expert on whether the company is required to conduct a secretarial audit. Advise the company. [7]

Answer:

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
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.

In the given case, the company is an unlisted public company with paid up capital of ₹45 crore (less than ₹50 crore) and its turnover of ₹225 crore is also lower than the threshold of ₹250 crore. However, the company has an outstanding bank loan of ₹110 crore which is higher than the threshold of ₹100 crore. Thus, the company will need to conduct secretarial audit.

7. (a) Demonstrate the audit procedures to be followed for verification of Cash and Cash Equivalents. [7]

Answer:

Cash and Cash equivalent includes cash in hand, stamps in hand, balances held with bank in current accounts/ margin money accounts, cash credit accounts (debit balance), fixed deposits, and cheques in hand, etc. It is the most liquid form of assets of an organisation and hence utmost professional scepticism needs to be exercised while auditing such balances.

Audit Procedure to be Followed

(a) Existence

(i) The auditor shall exercise special care to verify cash balances. They shall be preferably checked by surprise. Physical verification of cash in hand would be utmost essential in this context.

(ii) If the company maintains any rough Cash Book or details of daily balances, the auditor shall perform test check to see that entries in the Cash Book are accurate. In case he finds any slip indicating temporary advance given to an employee which has been included in the cash balance, he should have them initiated by responsible official.

(iii) The auditor shall also perform a cash sensitivity analysis (by calculating total receipts and payments month wise) to determine if there is any abnormal variation in the same in a month. In such a case the auditor shall enquire into the same and demand explanation from the management.

(iv) He shall also obtain the Bank Reconciliation Statements for every bank account as at the reporting date to rule out possibility of any error in the cash book. The BRSs must be signed by the accountant and approved by responsible official. He shall also ask the management to reconcile all discrepancies.

(v) He shall also communicate with the respective banks and obtain written confirmation regarding the balances held in different bank accounts and deposits.

(b) Rights and Obligations

The auditor shall verify that all the deposits are in the name of the client. For this purpose, the confirmation of the banker and certificate of such deposits shall be examined.

(c) Cut-off

The cash balances must represent the amount of cash and cash equivalents on the reporting date.

(d) Completeness

The auditor shall ensure confirmation of 100% of the bank accounts. He shall also be careful to include all items of cash in hand in the total balance.

(e) Valuation

In addition to performing the above steps, the auditor shall also see that all bank balances representing holding

of foreign currencies have been appropriately restated at the exchange rate prevailing on the date of reporting.

(f) Presentation and Disclosure

The auditor shall ensure the disclosures as per the relevant Accounting Standards and Part 1 of Schedule III of the Companies Act 2013.

(b) Discuss the functions and Duties of National Financial Reporting Authority (NFRA). [7]

Answer:

The National Financial Reporting Authority (NFRA) was constituted on 1st October,2018 by the Government of India under Sub Section (1) of section 132 of the Companies Act, 2013. The body will comprise of one Chairman who will be an eminent individual with competence in accounting, auditing, finance, or law as Chairperson. In addition, there can be a maximum of 15 members.

Functions and Duties of NFRA:

As per Section 132(2) of the Companies Act, 2013, the duties of the NFRA are to:

(vi) Recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government;

(vii) Monitor and enforce compliance with accounting standards and auditing standards;

(viii) Oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service;

(ix) Perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.Sub Rule (1) of Rule 4 of the NFRA Rules, 2018, provides that the Authority shall protect the public interest and the interests of investors, creditors and others associated with the companies or bodies corporate governed under Rule 3 by establishing high quality standards of accounting and auditing and exercising effective oversight of accounting functions performed by the companies and bodies corporate and auditing functions performed by auditors.

8. (a) Discuss the steps to be taken by an auditor of a Co-Operative Society. [7]

Answer:

a) General Points: In general, while conducting audit of Co-operative society, the auditor needs to look into the following: -

- The auditor should carefully go through the bye-laws of the society and see that they are being observed both in letter and spirit.
- He should examine the Register of Members of the society and individual shareholdings.
- He should test-check the internal check and control system operated by the society and model his audit examination based on its strengths and weaknesses.

b) Audit of income: He should carefully vouch the receipt of cash. Cash receipts on account of share capital should be vouched with the Register of Members. Cash received against sales should be vouched with the cash memos and invoices issued to customers as also Sales Account. Receipt of cash in respect of payment of interest and repayment of loans advanced by the society should be vouched with the loan agreements. Cash received from members towards construction of houses or their maintenance, should be vouched with the Register of Members, demands made by the society from time to time, and money receipts.

c) Audit of Expenditure:

- He should vouch all expenditure with reference to authorisation from the Managing Committee, particularly in the case of large capital expenditure, as also the bills received from individual parties, the money receipts obtained from them, and entries in the Bank Pass Book along with counter-foils of cheques.
- He should vouch the payment of loans from the loan agreements entered into with borrower members.
- He should vouch establishment expenses with reference to the resolutions of the Managing Committee,agreements with the persons concerned, and money receipts obtained from them.

d) Other points:

- He should appropriately classify overdue debts for a period from six months to five years and more, and report them to the members, with a note regarding the effects these might have on the financial position of the society. He should also put a note regarding the probability of

recovery of such debts.
Similarly, he should make a special reference to the overdue amount of interest from members. Generally, interest on overdue debts should not be credited to Interest Account but to the Overdue Interest Reserve Account.

- Writing off of bad debts should be after prior authorisation from the Managing Committee of the society. According to the Maharashtra Co-operative Societies Rules, a bad debt can be written off only when it is certified to be irrecoverable by the auditor. This casts a special obligation on the auditor to ascertain whether the debt in question was created within the Rules of the society, and whether it has now really become bad and irrecoverable.

(b) Demonstrate the essential Characteristics of Internal Check System. [7]

Answer:

Following are the essential characteristics or principles of a good internal check system.

a. Division of work: The entire task should be divided among the staff in such a way that no single person is allowed to complete the work solely by himself from the beginning to the end.
b. Provision of check: There must be clear instruction that the work performed by any staff must be checked by the next staff.
c. Responsibility: Responsibility of each individual must be properly defined and fixed.
d. Use of technology: As far as possible, various technology enabled devices should be used to minimise human error.
e. Rotation of employees: A system of transfer or rotation of employees from one responsibility to another must be followed by the business.
f. Control over employees: Generally, chances of frauds are high in case there is direct contact between staff and the customers. So, a manager can keep eyes in those areas to make internal check system more effective.
g. Supervision: A strict supervision should be exercised to ensure that the prescribed internal checks and procedures are fully operative.
h. Periodical review: The system of internal check is reviewed from time to time to introduce improvements.