INTERMEDIATE EXAMINATION **SET 2**

MODEL ANSWERS **TERM – DEC 2025**

PAPER – 10 **SYLLABUS 2022**

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) A company issued 8,000 shares and received applications for 10,000 shares. Pro-rata allotment is made. A person applied for 500 shares. How many shares will he get?

a. 500

b. 400

c. 300

d. 350

(ii) A company announces bonus shares in the ratio 2:5. A shareholder holds 9000 shares. How many bonus shares will he receive?

a. 2,000

b. 4,500

c. 3,600

d. 5,000

(iii) As per Schedule III of Companies Act 2013, while preparing the financial statements in case of a Finance Company, interest received from borrowers should be shown under

a. Revenue from operation

b. Other Income

c. Current assets

d. Non-current assets

(iv) In the Notes to Accounts a Contingent liabilities shall be classified as _____________.

a. Claims against the company not acknowledged as debt

b. Guarantees

c. Other money for which the company is contingently liable

d. All of these

(v) A company received dividend of Rs. 1,00,000 on its investment in other company's share. In case of a Finance company it will be classified as

a. Cash Flows from Investing Activity

b. Cash Flows from Financing Activity

c. Cash Flows from Operating Activity

d. None of these

(vi) A banking company is required to maintain_____________ provision on unsecured portion of doubtful advances.

a. 25%
b. 40%
c. 50%
d. 100%

(vii) Anti-diluted EPS is generally:

a. Lower than basic EPS
b. Higher than basic EPS or lower loss per share
c. Equal to net profit
d. Irrelevant for financial reporting

(viii) Ind AS 21 deals with

a. The Effects of Changes in Foreign Exchange Rates
b. Segment Reporting
c. Income Taxes
d. Earnings Per Share

(ix) Find out cost of Purchase from the following data:

Purchases	257,000
Customs duty	44,000
Air Freight	17,250
Penalty charges for overdue payment	7000

a. 147,000
b. 325,250
c. 318,250
d. 450,000

(x) The auditor should be:

a. Competent, independent, and qualified
b. Employee of the company only
c. Non-certified, informal evaluator
d. Part of the internal management team

(xi) SA 530 stands for

a. Audit Documentation
b. Audit Sampling
c. Responsibility of Joint Auditor
d. Agreeing the terms of Audit Engagements

(xii) Joint Audit refers to:

- **a. Audit of several companies by one auditor**
- **b. Audit of one company by several auditors**
- **c. Internal audit conducted by multiple departments**
- **d. Audit of a company's branch offices**

(xiii) In the financial statements, PPE should be presented under:

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

(xiv) When fees are received after the due date, the auditor should check whether:

- **a. Fees are refunded**
- **b. Late fine has been charged and properly recorded**
- **c. Student is expelled**
- **d. Interest is waived off**

(xv) Unsold tickets in a cinema hall should be:

- **a. Destroyed daily**
- **b. Given to distributors**
- **c. Kept under lock and key under the responsibility of an authorized official**
- **d. Deposited in the bank**

Answers:

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

Section – B

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

[5 x 14 = 70]

2. **(a)** **GH & Co. Ltd. issued 5,000 Equity shares of ₹10 each at par, payable ₹2 per share on application, ₹4 per share on allotment, ₹4 on first call and final call. The shares were all subscribed and all money due was received. One shareholder holding 200 shares paid the call money along with the allotment money. The amount was subsequently adjusted. Give the Journal entries to record the above transactions.** **[7]**

(b) **RPS Ltd. has 12% redeemable preference share capital of ₹50,000 consisting shares of ₹100 each fully called and paid-up. The company wants to redeem them at 10% premium:**

The ledger accounts show the following balances:

Security Premium A/c: ₹ 2,000

Profit & Loss A/c: ₹ 10,000

The company wants to make a minimum fresh issue of equity shares of ₹10 each at 5% premium for redemption of the preference shares.

You are required to:

(i) Ascertain the amount of fresh issue to be made by the company.

(ii) Pass necessary journal entries regarding redemption of the preference shares and fresh issue. **[7]**

Answer:

(a)

In the books of GH & Co. Ltd.

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.	10,000	
	To Share Application A/c		10,000
	Share Application A/c Dr.	10,000	
	To Share Capital A/c		10,000
	Share Allotment A/c Dr.	20,000	
	To Share Capital A/c		20,000
	Bank A/c Dr.	20,000	
	To Share Allotment A/c		20,000
	Bank A/c Dr.	800	
	To Calls-in-Advance A/c		800
	Share 1st and Final Call A/c Dr.	20,000	
	To Share Capital A/c		20,000
	Bank A/c Dr.	19,200	
	Calls-in-Advance A/c… Dr.	800	
	To Share 1st and Final Call A/c		20,000

(b)

(i) Calculation of Minimum amount of New Issue of Equity Shares:

Particulars	Amount (₹)
Face value of Preference shares to be redeemed (500 SH × 100 PSH)	50,000
Add: Redemption Premium (50,000 × 10%)	5,000
Total fund required for redemption of preference shares (a+b)	55,000
Less: Profit & loss Account	(10,000)
Less: Securities Premium	(2,000)
Fund required to raise by issue of new equity shares (c-d-e)	43,000
Issue price per Equity share (10 ×105%)	10.50
Number of new Equity Shares to be issued	4,095

(ii) Journal Entries in the books of RPS Limited

Date	Particulars		Debit (₹)	Credit (₹)
	Bank A/c (4095 SH × 10.50)	Dr.	42,998	
	To Equity share capital A/c (4095 SH × 10)			40,950
	To Securities Premium A/c (4095 SH × 0.5)			2,048
	(Being issue of equity shares at premium)			
	Securities Premium A/c (2,000 + 2,048)	Dr.	4,048	
	Profit & Loss A/c (5,000 -4,048)	Dr.	952	
	To Premium on Redemption of Preference Shares A/c (50000 × 10%)			5,000
	(Being redemption premium is provided)			
	12% Redeemable Preference Share Capital A/c	Dr.	50,000	
	Premium on Redemption of Preference shares A/c	Dr.	5,000	
	To Preference Shareholders A/c			55,000
	(Being amount due on Redemption of preference shares)			
	Preference Shareholders A/c	Dr.	55,000	
	To Bank A/c			55,000
	(Being payment made on redemption)			
	Profit & Loss A/c (10,000 – 952)	Dr.	9,050	
	To Capital Redemption Reserve A/c			9,050
	(Being free reserves used to redeem face value of preference shares is transferred to CRR A/c)			

3. BTC Ltd. provides the following Trial Balance as on 31st March 2024:

Particulars	Dr. Balance (₹)	Cr. Balance (₹)
Equity Share Capital 300000 shares of ₹10 each fully paid		30,00,000
12% Bank Loan		2,00,000
Furniture	2,25,000	
Machinery	7,50,000	
Building	12,50,000	
Non-current Investment	2,00,000	
Sales		48,00,000
Sales Return	4,00,000	
Interest Received on Investment		20,000
Interest on Bank Loan	20,000	
Purchase	33,20,000	
Purchase Returns		420,000
Opening Stock	2,00,000	
Discount	6,250	
Carriage on Goods Sold	1,39,000	
Rent and Taxes	60,000	
Trade Receivables	12,00,000	
Trade Payables		80,000
Advertisement	1,20,000	
Bad Debt	10,000	
Salaries	4,00,750	
Audit Fees	27,000	
Contribution of P.F.	60,000	
Cash at Bank and in hand	1,32,000	
Total	85,20,000	85,20,000

Additional Information:

(i) Closing Stock as on 31st March 2024 was ₹2,12,500

(ii) Depreciation Rates: Furniture 10%; Machinery 20% and Building 10%

(iii) Outstanding salaries as on 31st March 2024 was ₹62,250

(iv) Trade receivables include a sum of ₹25,000 due from Mr. B. Reddy and trade payables include ₹15,000 due to him.

(v) Create a provision for doubtful debt @ 5% on trade receivables.

(vi) Provide for income tax ₹80,000.

Prepare a Statement of Profit and Loss for the year ended on 31st March 2024 [14]

Answer:

Statement of Profit and Loss for the year ended on 31.03.2024

Particulars	Note	₹
I. Revenue from operation (sales less returns)		44,00,000
II. Other Income (Income from investment)		20,000
III. Total revenue		44,20,000
IV. Expenses:		
Purchase		29,00,000
Changes in inventory i.e. (opening less Closing)		(12,500)
Employee Benefit expenses	1	5,23,000
Finance cost	2	24,000
Depreciation	4	2,97,500
Other expenses	3	4,21,500
		41,53,500
V. Profit before exceptional and extraordinary items and tax		2,66,500
VI. Exceptional items		Nil
VI Profit before extraordinary items and tax		2,66,500
VII. Extraordinary items		Nil
VIII. Profit before tax		2,66,500
IX. Tax (provision for tax)		80,000
X. Profit after tax		1,86,500

Notes to Accounts (Schedules):

Schedule - 1. Employee Benefit Expenditure	₹
Salaries	4,00,750
Outstanding Salaries	62,250
Contribution to P.F.	60,000
	5,23,000
Schedule - 2. Finance Cost	₹
Interest on loan	20,000
Outstanding Interest	4,000
	24,000
Schedule - 3. Other Expenditure	₹
Discount	6,250
Carriage	1,39,000
Rent	60,000
Advertisement	1,20,000
Bad Debt	10,000
Audit fees	27,000
Provision for Bad debt	59,250
	4,21,500

Schedule - 4. Fixed Assets	Furniture (₹)	Machine (₹)	Building (₹)
Balance	2,25,000	7,50,000	12,50,000
(-) Depreciation	22,500	1,50,000	1,25,000
	2,02,500	6,00,000	11,25,000
Total Fixed Assets			19,27,500
Depreciation			2,97,500

4. (a) From the following information of details of advances of X Bank Limited calculate the amount of provisions to be made in Profit and Loss Account for the year ended 31.3.2025:

Asset classification	**₹ in lakhs**
Standard	**6,000**
Sub-standard	**4,400**
Doubtful:	
For one year	**1,800**
For two years	**1,200**
For three years	**800**
For more than three years	**600**
Loss assets	**1,600**

[7]

(b) From the following information compute return on equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations,2004:

(i) Date of commercial operation of COD = 01.04.2024

(ii) Approved opening capital cost as on 01.04.2024 = ₹15,00,000

(iii) Details of allowed additional capital expenditure:

Particulars	**Amount (₹)**			
Year	**1**	**2**	**3**	**4**
Additional Capital Expenditure	**1,00,000**	**30,000**	**20,000**	**10,000**

[7]

Answer:

(a) Statement showing provisions on various performing and non-performing assets:

Asset Classification	Amount (₹ in Lakhs)	Provision (%)	Amount of Provision (₹ in lakhs)
Standard	6,000	0.40	24
Sub-standard	4,400	15	660
Doubtful			
One year	1,800	25	450
2 years	1,200	40	480
3 years	800	40	320
More than 3 years	600	100	600
Loss assets	1,600	100	1,600
			4,134

(b) Calculation of Return on Equity:

Particulars	Year 1	Year 2	Year 3	Year 4
(i) Opening Equity (Opening Capital Cost × 30%)	4,50,000 (15,00,000×30%)	4,80,000	4,89,000	4,95,000
(ii) Additional Equity (Additional Expenditure×30%)	30,000 (1,00,000×30%)	9,000 (30,000×30%)	6,000 (20,000×30%)	3,000 (10,000×30%)
(iii) Closing Equity (i + ii)	4,80,000	4,89,000	4,95,000	4,98,000
(iv) Average Equity [(i+ii)/2]	4,65,000	4,84,500	4,92,000	4,96,500
(v) Return of Equity (iv × 14%)	65,100	67,830	68,880	69,510

5. (a) At the end of financial year 2023-24, Shri Hari Ltd finds that there is a law suit outstanding. The possible outcomes as estimated by the Board of Directors is as follows:

Particulars	Probability	Loss
Win	**60%**	**₹0**
Lose (Low Damage)	**30%**	**₹1,00,000**
Lose (High Damage)	**10%**	**₹2,00,000**

[7]

(b) Miller Ltd. deals in three products M, N and O which are neither similar nor interchangeable. At the time of closing of its Financial Account for the year ended March 31,2024, Valuation of Closing Stock of the said products is to be determined. The details of Closing Stock of the three products extracted from the records of the company are as under:

Type of Product	Cost of materials	Production expenses incurred	Selling and distribution expenses to be incurred	Estimated Selling Value
M	**50,000**	**10,000**	**5,000**	**75,000**
N	**25,000**	**2,500**	**2,500**	**25,000**
O	**60,000**	**15,000**	**10,000**	**90,000**
	1,35,000	**27,500**	**17,500**	**1,90,000**

Compute the value of stock as per Ind AS -02 for inclusion in the financial statement as on 31.03.2024.
[7]

Answer:

(a) Calculation of value of contingent liability to be disclosed in financial statements:

Particulars	Computation	Amount (₹)
Win	0	0
Lose (Low Damage)	1,00,000 × 30%	30,000
Lose (High Damage)	2,00,000 × 10%	20,000
Amount of provision to be disclosed in notes to accounts		₹50,000

(b) Determination of value of inventory as on 31/03/2024 as per Ind AS 02:

Particulars	Product M	Product N	Product O	Total (₹)
(a) Cost of Inventory:				
Cost of materials	50,000	25,000	60,000	
Add: Production expenses	10,000	2,500	15,000	
Total Cost of Inventory	60,000	27,500	75,000	
(b) Net Realisable Value:				
Estimated Sales Value	75,000	25,000	90,000	
Less: Selling expenses	(5,000)	(2,500)	(10,000)	
Net Realisable value	70,000	22,500	80,000	
(c) Value of Inventory (lower of a or b)	60,000	22,500	75,000	1,57,500

Comment: Value of stock will be ₹1,57,500 for inclusion in the financial statements as per Ind AS -2.

As per Ind AS 02, Inventory shall be valued at lower of Cost or Net Realisable Value and Inventory valuation should be carried out item –wise.

6. (a) Distinguish between Audit & Investigation [7]

(b) Discuss the Rights of the Company Auditor as per Companies Act,2013. [7]

Answer:

(a)

	BASIS	AUDIT	INVESTIGATION
1.	Meaning	Auditing is an independent and systematic examination of the evidence underlying the accounting or other data in accordance with the generally accepted auditing practices to ascertain the true and fair view of the financial statements of an enterprise.	An investigation may be defined as an examination of accounts and records with a view to ascertain any fact for some special purpose which varies from assignment to assignment.
2.	Scope	The audit has a wide scope. In statutory audit, the scope is determined by the relevant law and in case of a private audit (e.g., management audit) by a client.	The scope of investigations, on the other hand, is limited as regards the period or areas to be covered.
3.	Objective	In audit, the accounts and records are verified as to their truth and fairness.	Investigation is for special purpose (e.g., investigation on the behalf of incoming partner)

4.	Audit Procedure	The audit is conducted in accordance with the generally accepted auditing principle.	Investigations involve an extended auditing procedure.
5.	Evidence	An auditor will evaluate the accounting records predominantly based on persuasive evidence.	An investigator can draw his conclusions only on the basis of substantial or sometimes conclusive evidence.
6.	Approach	Auditor is skeptical and not suspicious.	Whereas an investigator starts with suspicion and collects evidence to either confirm or dispel that suspicion.
7.	Periodicity	Auditing is a routine exercise (normally con- ducted annually).	Investigation may spread over a period longer than one year.

(b)

- **Inspect Books of Accounts and Vouchers:** Every auditor of a company shall have the right of access, at all times, to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place. In addition, auditor of a holding company shall also have the right of access to the records of all its subsidiaries and associate companies in so far as it relates to the consolidation of its financial statements with that of its subsidiaries [Section 143(1)].
- **Obtain Information and Explanations:** The auditor shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties
- **Inspect Branch Offices and Branch Accounts:** The company auditor is also entitled to inspect the accounts of any branch office in case he considers it necessary in order to discharge his duties as the company auditor. He can do so, even if a separate auditor has already been appointed to audit the branch accounts [Section 143(8)].
- **Receive the Report of Branch Audit from the Branch Auditor:** In case a separate auditor has been appointed to audit the branch accounts, the company auditor has the right to receive the branch audit report from the branch auditor so appointed and use it to prepare the overall audit report [Section 143(8)].
- **Sign the Audit Report and Other Documents:** The company auditor also has the right to sign the auditor's report or sign or certify any other document of the company in accordance with the provisions of sub-section (2) of Section 141 [Section 145].
- **Attend the Meeting of the Audit Committee:** The auditors of a company shall have a right to attend the meetings of the Audit Committee and to be heard in the meetings when the Committee considers the auditor's report, but shall not have the right to vote [Section 177(7)].
- **Right to be Indemnified:** The auditor of a company shall also have the right to be indemnified for any expenses incurred by him in defending himself in case the judgement in any law suit (whether civil or criminal) against the company goes in favour of the auditor.

The above rights of a company auditor are protected by law and no clause of the Articles of Association of a company or resolution adopted in any meeting can supersede them.

7. (a) Explain how an auditor applies vouching to check the accuracy and authenticity of transactions recorded in the books of accounts. [7]

(b) Explain the Role of National Financial Reporting Authority (NFRA) in Auditing [7]

Answer:

(a) The traditional methods associated with the audit of financial statement items are known as Vouching and Verification.

Vouching refers to the examination of accuracy, authority and authenticity of transactions that appear in the books of accounts with the help of vouchers of these transactions. Thus, vouching examines whether –

- all transactions undertaken by the entity have been recorded and nothing has been purposefully left out.
- transactions recorded in the books of accounts are supported by documentary evidence.
- no fraudulent transaction has been recorded in the books of accounts.
- transactions that have been recorded belong to the current accounting year (in case of accrual basis of accounting).
- necessary vouchers relating to entries recorded in books are with the client.
- all transactions are properly authorised by the person responsible to do so.
- transactions have been recorded at the correct value and such values have been calculated correctly.
- transactions recorded in the books of accounts are related to the organisation.
- proper accounting entries have been made against the transactions.

(b) (A) Recommending Auditing Standards

As mentioned earlier, NFRA recommends auditing policies and standards to be adopted by companies for approval by the Central Government. For this purpose, the Authority –

- shall receive recommendations from the Institute of Chartered Accountants of India on proposals for new accounting standards or auditing standards or for amendments to existing accounting standards or auditing standards;
- may seek additional information from the Institute of Chartered Accountants of India on the recommendations received under clause (a), if required.

Further, the Authority shall consider the recommendations and additional information in such manner as it deems fit before making recommendations to the Central Government.

(B) Monitoring and Enforcing Compliance with Auditing Standards

(1) For the purpose of monitoring and enforcing compliance with auditing standards under the Act by a company or a body corporate governed under Rule 3, the Authority may:

- review working papers (including audit plan and other audit documents) and communications related to the audit;
- evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor;

(2) The Authority shall not publish proprietary or confidential information, unless it has reasons to do so in the public interest and it records the reasons in writing.

(3) The Authority may send a separate report containing proprietary or confidential information to the Central Government for its information.

(c) **Power to Investigate**

In addition to the above, the Authority also enjoys power to –

- investigate any matter of professional or other misconduct under sub-section (4) of section 132 of the Act;
- undertake investigation into any matter on the basis of its compliance or oversight activities; or
- undertake suo-motu investigation into any matter of professional or other misconduct, after recording reasons in writing for this purpose.

8. (a) Discuss the key areas an auditor should analyze while auditing receipts and payments in an educational institution. [7]

(b) Discuss the Disqualification of Auditor as per the Companies Act, 2013 [7]

Answer:

(a) (i) **Verify the Receipts Related Transactions:**

- **Tuition Fees:** Tally the counterfoils of fee receipt with fee register to see whether they have been duly recorded or not. Check the register to identify whether all the students have paid their fees in due time. If any student has deposited the fees beyond the due date, check whether late fine has been charged or not and whether the same has been properly recorded. See whether all collections are deposited in the bank account at the end of the day. Total up the various columns of the Fees Register for each month or term to ascertain that fee paid in advance have been carried forward and the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
- **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.
- **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.
- 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 a person authorised to do so, having regard to the prescribed Rules.
- Confirm that hostel dues were recovered before students' accounts were closed and their

deposits of caution money refunded.

- Verify grants received from Government or other organisations based on the sanction letter and bank statement.
- Ensure that donation received, if any, has been acknowledged and recorded properly in the books of accounts.
- Check income from letting out institutional properties based on the counterfoil of receipts issued to parties.
- Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.

(ii) Verify the Payments Related Transactions:

- Verify the salary and wages paid to the employees. In case of Govt. or aided colleges, verify that the claims have been properly prepared and the amount sanctioned has been distributed to the right person. Check the calculation and accounting of arrear salary and see whether the deductibles from salary, such as Provident Fund Contribution and Income Tax deducted at source, have been deposited with the authority concerned in due time and if not, whether the same have been accounted for appropriately.
- Examine whether all the expenditure associated with special events like seminar or symposium etc. has been accounted for by matching the expenditure in this regard against the amount obtained from any organisation or sanctioned by the institution itself.
- Vouch all the regular expenses such as electricity, telephone or broadband bills, travelling expenses, etc. based on available vouchers and accounting records.
- Vouch purchase of fixed assets, expenditure for construction of college buildings based on the available vouchers, resolution of the meetings of purchase/finance committee. Similarly, utilization of grants for purchase of fixed assets, library books and laboratory equipment must be separately vouched.
- Vouch the refund of Caution Deposit from the students based on receipts and accounting records.
- Examine the payments on account of hostel facilities including repairs and mainte-nance of hostel building, electricity charges, purchase of food items etc.
- See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated and invested along with the corpus.

(b) Disqualification of a Company Auditor:

As per Section 141(3), read with Rule 10 of Company (Audit and Auditor) Rule 2014, the following persons shall not be eligible for appointment as an auditor of a company:

- a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
- an officer or employee of the company;
- a person who is a partner, or who is in the employment, of an officer or employee of the company;

- a person who, or his relative or partner:
  - (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company, of face value not exceeding rupees one lakh;
  - (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of rupees five lakh;
  - (iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of rupees one lakh;
- a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;