INTERMEDIATE EXAMINATION | SET - 1

MODEL ANSWERS | TERM – JUNE 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: **[15×2 = 30]**

i. Given, paid -up share capital ₹10,00,000 and free reserves ₹2,00,000, what is the maximum amount permissible for buy-back of shares.

a. ₹2,00,000
b. ₹2,50,000
c. ₹2,80,000
d. ₹3,00,000

ii. 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

iii. Which of the following is a defined contribution plan?

a. Multi-employer plan
b. State plan
c. Insured benefits
d. All the above

iv. 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.

v. In case of an electricity company, depreciation on assets is calculated based on the rates notified by?

a. Companies Act 2013.
b. State Electricity Commission.
c. Central Electricity Regulatory Commission.
d. Income Tax Act 1961.

vi. Internal Audit is mandatory for every unlisted public company having paid up share capital of.
- a. ₹100 crores during the preceding financial year
- b. ₹50 crores during the preceding financial year.
- c. ₹500 crores during the preceding financial year
- d. ₹ 200 crores during the preceding financial year

vii. Test checking requires application of __________.
- a. mathematical theory
- b. sampling theory
- c. geometry theory
- d. stakeholder theory

viii. Each qualified chartered accountant not in full time employment can be the auditor of at most _______ companies.
- a. 10
- b. 15
- c. 20
- d. 30

ix. 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

x. According to the Central Co-operatives Societies Act, ________ of the profits of a co-operative society should be transferred to a Reserve Fund before distribution of dividend or payment of bonus to its members.
- a. 20%
- b. 25%
- c. 30%
- d. 35%

xi. Which of the following is not a part of rural self-governance system in India?
- a. Gram Panchayat
- b. Gram Parishad
- c. Panchayat Samiti
- d. Zilla Parishad

xii. SA 210 stands for________?
- a. Audit Planning
- b. Audit Working Papers
- c. Agreeing the terms of Audit Engagements
- d. Audit Documentation

xiii. Which of the following is not a content of audit report as per CARO?
- a. Inventory
- b. Acceptance of deposit
- c. Recruitment of employees
- d. Repayment of loan.

xiv. An auditor shall submit an unmodified report when__________.
- a. The financial statements exhibit true and fair view
- b. The financial statements are partially correct
- c. The financial statements are partially correct
- d. The financial statements are unavailable

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	xi	xii	xiii	xiv	xv
d	a	d	b	c	b	b	c	c	b	b	c	c	a	d

Section – B

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

[5 × 14 = 70]

2. (a) Priyanka Industries Ltd. has an authorized capital ₹2,00,000 divided into shares of ₹100 each. Of these, 600 shares were issued as fully paid for payment of machinery purchased from Z Ltd. 800 shares were subscribed for by the public and during the first year ₹50 per share was called up payable ₹20 on application, ₹10 on allotment, ₹10 on the first call and ₹10 on second call.

The amounts received in respect of these shares were as follows: -

On 600 Shares	Full amount called up
On 125 Shares	₹40 Per Share
On 50 Shares	₹30 Per Share
On 25 Shares	₹20 Per Share

The directors forfeited the 75 shares, on which less than ₹40 per share had been paid.

Required:

Give Journal Entries recording the above transactions (including cash transactions) and prepare Balance-Sheet of the Company, in accordance with Part 1 of Schedule III to the Companies Act.

(b) On 1st April 2020. H Ltd. issued 442, 10% Debentures of ₹1000 each at a discount of 10% redeemable at a premium of 5% after 4 years. It was decided to create a Sinking Fund for the purposes of accumulating sufficient funds to redeem the Debentures and to invest in some radily convertible securities yielding 10% interest p.a. Reference to the table shows that ₹1.00 p.a. at 10% compound interest amounts to ₹4.641 in 4 years. Investments are to be made in the Bonds of ₹1000 each available at par. On 31st March 2024, the investments realised ₹3,40,000 and debentures were redeemed. The bank balance as on that date was ₹50,000. Fund Investments Account for 4 years.

Required: Prepare Debenture Redemption Fund Account and Debenture Redemption [7 + 7 = 14]

Answer:

(a)

In the books of Priyanka Industries Ltd.
Journal

Particulars		Dr.(₹)	Cr. (₹)
Machinery A/c	Dr.	60,000	
To Z Ltd. A/c			60,000
(Being the purchase of machinery from Z Ltd. as per agreement dated...)			
Z Ltd. A/c	Dr.	60,000	
To Share Capital A/c			60,000
(Being the issue of 600 shares at par to Z Ltd)			
Bank A/c	Dr.	16,000	
To Share Application A/c			16,000
(Being the application money received for 800 shares subscribed @ ₹20.00 per share.)			
Share Application A/c	Dr.	16,000	
To Share Capital A/c			16,000
(Being the application money adjusted as per Board's Resolution No.... dated.)			
Share Allotment A/c	Dr.	8,000	
To Share Capital A/c			8,000
(Being the allotment money due for 800 shares subscribed @ ₹10.00 per share as per Board's Resolution No.... dated.)			
Bank A/c	Dr.	7,750	
Calls in Arrear A/c	Dr.	250	
To Share Allotment A/c			8,000
(Being the allotment money received on 775 shares)			

Share First Call A/c Dr. To Share Capital A/c (Being the first call money due as per Board's Resolution No.... dated.)	8,000	 8,000
Bank A/c Dr. Calls in Arrear A/c Dr. To Share First Call A/c (Being the first call received on 725 shares @ ₹10)	7,250 750	 8,000
Share Second Call A/c Dr. To Share Capital A/c (Being the second call money due as per Board's Resolution No.... dated.)	8,000	 8,000
Bank A/c Dr. Calls in Arrear A/c Dr. To Share Second Call A/c (Being the second call received on 600 shares)	6,000 2,000	 8,000
Share Capital A/c Dr. To Forfeited Share A/c [(50×30) + (25 ×20)] To Calls in Arrear A/c [(50×30) + (25 ×10)] (Being 75 shares forfeited as per Board's Resolution No.... dated.)	3,750	2,000 1,750

Name of the Company: Priyanka Industries Ltd.
Balance Sheet as at....

Ref No.	Particulars	Note No.	Current Year Reporting Period	Previous Year Reporting Period
			₹	₹
I	EQUITY AND LIABILITIES			
1.	Shareholders' Funds			
	(a) Share capital	1	97,000	
2	Share application money pending allotment		Nil	
3	Non-current liabilities		Nil	
4	Current Liabilities		Nil	
	Total (1+2+3+4)		97,000	
II	ASSETS			
1.	Non-current assets			
	(a) PPE and Intangible assets			
	(i) Tangible assets - PPE	2	60,000	
2	Current assets			
	(a) Cash and cash equivalents	3	37,000	
	Total (1+2)		97,000	

Notes to the Accounts:

Note 1. Share Capital	Current Year (₹)	Previous Year (₹)
Authorized Capital		
2,000 Equity share of ₹100 each	2,00,000	
Total	2,00,000	
Issued Capital		
1,400 shares of ₹100 each	1,40,000	
Total	1,40,000	
Subscribed Capital		
600 Shares of ₹100 each	60,000	
725 shares of ₹100 each out of ₹50 paid	36,250	
	96,250	
Less. Calls Unpaid	1,250	
	95,000	
Add: Forfeited Shares	2,000	
Total	97,000	

Note 2. PPE	Current Year (₹)	Previous Year (₹)
Machinery	60,000	
Total	60,000	

Note 3. Cash and Cash Equivalents	Current Year (₹)	Previous Year (₹)
Cash at Bank	37,000	
Total	37,000	

(b) DRF = Debenture Redemption Fund, DRFI = Debenture Redemption Fund Investment

Debenture Redemption Fund Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.03.2021	To Balance c/d	1,00,000	31.03.2021	By P&L App. A/c	1,00,000
31.03.2022	To Balance c/d	2,10,000	01.04.2021	By Balance b/d	1,00,000
			31.03.2022	By Interest on DRFI A/c	10,000
				By P&L App. A/c	1,00,000
		2,10,000			2,10,000
31.03.2023	To Balance c/d	3,31,000	01.04.2023	By Balance b/d	2,10,000
			31.03.2023	By Interest on DRFI A/c	21,000
			31.03.2023	By P&L App. A/c	1,00,000

		3,31,000			3,31,000
31.03.2024	To Loss on issue of Debentures/ Premium on redemption of Debentures A/c	22,100	01.04.2023	By Balance b/d	3,31,000
	To Debenture Redemption Reserve A/c	4,51,000	31.03.2024	By Interest on DRFI A/c	33,100
			31.03.2024	By P&L App. A/c	1,00,000
				By Debenture Redemption Fund Investment A/c (Profit)	
		4,73,100			4,73,100

Debentures Redemption Fund Investment (DRFI) Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.03.21	To Bank A/c	1,00,000	31.03.21	By Balance c/d	1,00,000
01.04.21	To Balance b/d	1,00,000	31.03.22	By Balance c/d	2,10,000
31.03.22	To Bank A/c	1,10,000			
		2,10,000			2,10,000
01.04.22	To Balance b/d	2,10,000	31.03.23	By Balance c/d	3,31,000
31.03.23	T Bank A/c	1,21,000			
		3,31,000			3,31,000
01.04.23	To Balance b/d	3,31,000	31.03.24	By Bank A/c (Sales)	3,40,000
31.03.24	To Debenture Redemption Fund A/c (Profit)	9,000			
		3,40,000			3,40,000

Working Note:

(i)	**Calculation of the amount of profit set aside**	**₹**
a.	Face Value of Debentures	4,42,000
b.	Premium Payable on Redemption	22,100
c.	Depreciable Cost (A + B)	4,64,100
d.	Value of annuity per ₹ 1	4,641
e.	Annual amount to be charged (C/D)	1,00,000

(ii) Calculation of the amount of investments and interest

Year (a)	Opening Balance (b)	Interest (c)= b×10/100	Saving (d)	Investments e=c+d	Closing Balance f=b+e
2020-21	—	—	1,00,000	1,00,000	1,00,000
2021-22	1,00,000	10,000	1,00,000	1,10,000	2,10,000
2022-23	2,10,000	21,000	1,00,000	1,21,000	3,31,000

2023-24	3,31,000	33,100	1,00,000	—	—

3. The following information has been extracted from the books of account of Hero Ltd. as at 31st March, 2024:

Particulars	Dr. (₹'000)	Cr. (₹'000)
Administration Expenses	480	
Cash at Bank and on Hand	228	
Cash Received on Sale of Fittings		10
Long Term Loan		70
Investments	200	
Depreciation on Fixtures, Fittings, Tools and Equipment (1st April, 2023)		260
Distribution Costs	102	
Factory Closure Costs	60	
Fixtures, Fittings, Tools and Equipment at Cost	680	
Profit & Loss Balance (at 1st April, 2023)		80
Purchase of Equipment	120	
Purchases of Goods for Resale	1710	
Sales (net of Excise Duty)		3,000
Share Capital (1,00,000 shares of ₹10 each fully paid)		1,000
Stock (at 1st April, 2023)	140	
Trade Creditors		80
Trade Debtors	780	
	4,500	4,500

Additional Information:

1. **The stock at 31st March, 2024 (valued at the lower of cost or net realizable value) was estimated to be worth ₹2,00,000.**
2. **Fixtures, fittings, tools and equipment all related to administration. Depreciation is charged at a rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal.**
3. **During the year to 31st March, 2024, the Company purchased equipment of ₹1,20,000. It also sold some fittings (which had originally cost ₹60,000) for ₹10,000 and for which depreciation of ₹30,000 had been set aside.**
4. **The average Income tax for the Company is 50%. Factory closure cost is to be presumed as an allowable expenditure for Income tax purpose.**
5. **The company proposes to pay a dividend of 20% per Equity Share. Profits transferred to reserves ₹30,000.**

Prepare Hero Ltd.'s Statement of Profit and Loss for the year to 31st March, 2024 and balance Sheet as at that date in accordance with the Companies Act, 2013 as per Division I of schedule III along with the Notes on Accounts containing only the significant accounting policies. **[14]**

Answer:

Name of the Company: Hero Ltd.

Balance Sheet as at: 31st March, 2024 **(₹'000)**

Ref No.	Particulars	Note No.	As at 31st March, 2024	As at 31st March, 2023
	I EQUITY AND LIABILITIES			
	1 Shareholder's Fund			
	(a) Share capital	1	1,000	
	(b) Reserves and surplus	2	350	
	2 Share application money pending allotment		NIL	
	3 Non-current liabilities			
	(a) Long-term borrowings	3	70	
	4 Current Liabilities			
	(a) Other current liabilities	4	80	
	(b) Short-term provisions	5	270	
	Total (1+2+3+4)		1,770	
	II ASSETS			
	1 Non-current assets			
	(a) PPE and Intangibles			
	(i) PPE	6	362	
	(b) Non-current investments	7	200	
	2 Current assets			
	(a)Inventory	8	200	
	(b)Trade Receivables	9	780	
	(c)Cash and Cash equivalents	10	228	
	Total (1+2)		1,770	

Note - Relevant items of Assets/ Liabilities are reflected in Balance Sheet and Schedule III. Hence sub- item not having any value for the given illustration is not shown/ represented in Balance Sheet.

Name of the Company: Hero Ltd.
Profit and Loss Statement for the year ended: 31st March, 2024

(₹'000)

		Note No.		As at 31st March, 2024	As at 31st March, 2023
I	REVENUE FROM OPERATION	11		3,000	
	Less: Excise duty				
				3,000	
II	OTHER INCOME				
III	TOTAL REVENUE(I+II)			3,000	
IV	EXPENSES:				
	(a) Cost of material consumed				
	(b) Purchase of products for sale		1,710		
	(c) changes in inventories of finished goods, work-in-progress and products for sale (140-200)		(60)		
	(d) Employees cost/ benefits expenses				
	(e) Finance cost				
	(f) Depreciation and amortization expenses		148		
	(g) Product development expenses/Engineering expenses				
	(h) Other expenses	12	602		
	(i) Expenditure transfer to capital and other account				
	TOTAL EXPENSES			2,400	
V	PROFIT BEFORE EXCEPTIONAL AND EXTRAORDINARY ITEMS AND TAX (III-IV)			600	
VI	EXCEPTIONAL ITEMS				
VII	PROFIT BEFORE EXTRAORDINARY ITEMS AND TAX (V-VI)			600	
VIII	EXTRAORDINARY ITEMS			60	
IX	PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (VII-VIII)			540	
X	Tax expenses:				
	(1) Current Tax			270	
	(2) Deferred Tax				
XI	PROFIT AFTER TAX FOR THE YEAR FROM CONTINUING OPERATION (IX-X)			270	
XII	Profit (loss) from discontinuing operations				
XIII	Tax expenses from discontinuing operations				
XIV	Profit(loss) from discontinuing operations (after tax)				

	(XII - XIII)				
XV	PROFIT (LOSS) FOR THE PERIOD (XI+XIV)			270	
XVI	Earning per equity share:				
	(1) Basic				
	(2) Diluted				

Note 1. Share Capital	**As at 31st March, 2024**	**As at 31st March, 2023**
Authorized, Issued, Subscribed and paid-up Share capital:		
1,00,000 Equity share of `10 each	1,000	
Total	1,000	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	**As at 31st March, 2024**		**As at 31st March, 2023**	
	Nos.	**(₹)**	**Nos.**	**(₹)**
Opening Balance as on 01.04.22 (Figure in ₹'000)	100	1,000		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)				
	100	1,000		
Less: Buy Back of share				
Total	100	1,000		

Note 2. Reserve & Surplus	**As at 31st March, 2024**	**As at 31st March, 2023**
General Reserve	30	
Profit and loss Balance	320	
Total	350	

Note 3. Long term borrowings	**As at 31st March, 2024**	**As at 31st March, 2023**
Long term loan	70	
Total	70	

Note 4. Trade Payables	**As at 31st March, 2024**	**As at 31st March, 2023**
Sundry Creditors	80	
Total	80	

Note 5. Short- term provisions	**As at 31st March, 2024**	**As at 31st March, 2023**
Provision for Taxation	270	
Total	270	

Note 6. PPE		As at 31st March, 2024	As at 31st March, 2023
Fixtures, Fittings, Tools and equipment at cost- Opening	680		
Add: Additions	120		
Less: Sale/ disposed	(30)		
Less: Depreciation (260+148)	(408)	362	
Total		362	

Note 7. Non-Current Investments	As at 31st March, 2024	As at 31st March, 2023
Investments	200	
Total	200	

Note 8. Inventories	As at 31st March, 2024	As at 31st March, 2023
Stock	200	
Total	200	

Note 9. Trade Receivables	As at 31st March, 2024	As at 31st March, 2023
Trade Debtors (more than six months considered good)–	780	
Total	780	

Note 10. Cash and cash equivalents	As at 31st March, 2024	As at 31st March, 2023
Cash at Bank and on hand	228	
Total	228	

Note 11. Revenue from operation	As at 31st March, 2024	As at 31st March, 2023
Sales (net of Excise Duty)	3,000	
Total	3,000	

Note 12. Other Expenses	As at 31st March, 2024	As at 31st March, 2023
Administrative Expenses	480	
Distribution Expenses	102	
Loss on sale of Fixed Assets	20	
Total	602	

Note 13: Profit and Loss Balance	As at 31st March, 2024	As at 31st March, 2023
Balance brought forward from previous year	80	
Profit during the year	270	
Profit available for appropriation	350	
Appropriation:		
Transfer to General Reserve	30	

Balance carried forward	320	

Note 14. Contingent Liabilities for Proposed dividend	As at 31st March, 2024	As at 31st March, 2023
Proposed divided (20% of ₹1,000)	200	

4. (a) From the following particulars, prepare Profit and Loss A/c of ABC Bank Ltd. for the year ending 31st March 2024:

Particulars	Amount (₹)	Particulars	Amount (₹)
Interest on Loans	34,90,000	Rent & taxes	1,80,000
Interest on Fixed deposits	36,50,000	Interest on Overdrafts	12,80,000
Rebate on bills discounted (1-4- 2023)	4,80,000	Director's remuneration	42,000
Commission charged to customers	97,000	Interest on savings deposit A/c	6,90,000
Office expenses	15,50,000	Postal expenses	19,000
Discount on bills discounted	19,40,000	Printing and stationary	39,000
Amount charged against Current A/c	1,20,000	Other expenses	18,000
		Interest on cash credit	22,40,000

Adjustments to be made:

(i) Rebate on bills discounted ₹ 485,000.

(ii) Provide for taxation @ 30% of the profit.

(b) Prepare the Fire Insurance Revenue A/c as per IRDA regulations for the year ended 31st March, 2024 from the following details:

Particulars	₹
Claims paid	4,90,000
Legal expenses regarding claims	10,000
Premiums received	13,00,000
Re-insurance premium paid	1,00,000
Commission	3,00,000
Expenses of management	2,00,000
Provision against unexpired risk on 1st April, 2023	5,50,000
Claims unpaid on 1st April, 2023	50,000
Claims unpaid on 31st March, 2024	80,000

Create Reserve for Unexpired Risk @ 50%. **[7 + 7 = 14]**

Answer:

(a)

Profit and Loss Account for the year ended 31st March 2024

Particulars	**Schedule No.**	**Amount (₹ in 000's)**
I. Income		
Interest earned	13	29,225
Other Income	14	97
Total		29,322
II. Expenditure		
Interest expended	15	4,340
Operating expenses	16	1,848
Provisions and contingencies		6,940.20
Total		13,128.20
III. Profit		
Net Profit for the year		16,193.80
Add: Profit/ (Loss) brought forward		
Total		16,193.80
IV. Appropriations		
Transfer to Statutory Reserve (25%)		4,048.45
Transfer to Capital Reserve		
Transfer to Investment Fluctuation Reserve		
Transfer to Revenue and other Reserves		
Dividend for the current year		
Balance carried over to Balance Sheet		12,145.35
Total		16,193.80
V. Earnings Per Equity share (face value 1 per share)		
Basic (in ₹)		
Diluted (in ₹)		

Schedule 13: Interest Earned	
Particulars	Amount (₹ in 000's)
Interest on loan	3490
Discount on bills discounted	1940
Interest on Cash credits	22,400
Interest on Overdrafts	1280
Amount charged against current A/C	120
Less: Rebate on Bills discounted	485
Add: Rebate on Bills discounted	480

Total	29,225

Schedule 14: Other Income	
Particulars	Amount (₹ in 000's)
Commission charged to customers	97

Schedule 15: Interest Expended	
Particulars	Amount (₹ in 000's)
Interest on Fixed Deposits	3650
Interest on savings deposit A/C	690
Total	4340

Schedule 16: Operating Expenses	
Particulars	Amount (₹ in 000's)
Director's remuneration	42
Rent, Taxes etc.	180
Office expenses	1550
Postal expenses	19
Printing and stationery	39
Other expenses	18
Total	1848

(b) Name of the Insurer:

FORM B – RA

Registration No. and Date of Registration with the IRDA:

Fire Insurance Revenue Account for the year ended 31st March, 2024

	Particulars	Schedule	Amount (₹)
(1)	Premium earned	1	11,50,000
(2)	Other income		-
(3)	Interest, dividend and rent		-
	Total (A)		11,50,000
(4)	Claims incurred	2	5,30,000
(5)	Commission	3	3,00,000
(6)	Operating expenses related to Insurance business	4	2,00,000
	Total (B)		10,30,000
	Operating Profit (A)- (B)		1,20,000

Schedule 1 : Premium earned (net)	₹
Premium received	13,00,000
Less: Re-insurance premium	1,00,000
Net premium	12,00,000

Adjustment for change in reserve for unexpired risks (Refer W.N.)	50,000
	11,50,000

Schedule 2 : Claims Incurred	₹
Claims paid including legal expenses (4,90,000 + 10,000)	5,00,000
Add : Claims outstanding at the end of the year	80,000
Less : Claims outstanding at the beginning of the year	(50,000)
Total claims incurred	5,30,000

Schedule 3 : Commission	₹
Commission paid	3,00,000
	3,00,000

Schedule 4: Operating expenses	₹
Expenses of management	2,00,000
	2,00,000

Working Note:

Change in the provision for unexpired risk	₹
Unexpired risk reserve on 31st March, 2023 = 50% of net premium	
i.e. 50% of `12,00,000 (See Schedule 1)	6,00,000
Less : Unexpired risk reserve as on 1st April 2022	5,50,000
Change in the provision for unexpired risk	50,000

5. (a) Describe the disclosure requirements for provisions as per Ind AS 37.

(b) How would you deal with the following in the annual accounts of a company for the year ended 31.3.2023?

"The company has to pay delayed cotton clearing charges over and above the negotiated price for asking delayed delivery of cotton from the supplier's godown. Up to 2021-22, the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest the company has decided to exclude it from closing stock valuation for the year 2021-22. This would result into decrease in profit by ₹7.60 lakhs." **[7 + 7 = 14]**

Answer:

(a) For each class of provision, an entity shall disclose:

- the carrying amount at the beginning and end of the period;
- additional provisions made in the period, including increases to existing provisions;
- amounts used (i.e., incurred and charged against the provision) during the period;
- unused amounts reversed during the period; and
- the increase during the period in the discounted amount arising from the passage of time and the effect

of any change in the discount rate.

Comparative information is not required.

An entity shall disclose the following for each class of provision:

- a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits.
- an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph; and
- the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

(b) As per Ind AS 2, Inventories, interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are, therefore, usually not included in the cost of inventories. Thus, it becomes quite clear that delayed cotton clearing charges which were treated in the nature of interest must not be included while valuing closing stock as per the provision of Ind AS 2 and it is not in compliance with Ind AS 2 which was done up to 2020-21.

But from year 2021-22, the company decided to change the earlier view i.e. they decided to exclude the same from the valuation of closing stock which is, no doubt, in compliance with Ind AS 2.

As a result of change in accounting policy regarding valuation of stock, the profit was reduced by is. `7.60 lakhs which must be disclosed in the financial statement.

6. (a) Illustrate the meaning of Audit Trail. Summarize the statutory provisions relating to audit trail.

(b) Discuss about the applicability of secretarial audit for companies. [7 + 7=14]

Answer:

(a) Audit trail may be defined as the documents, records relating to transactions that enables an auditor to trace the transactions from the source documents to the summarised total in accounting reports. It is an orderly, step-by- step record of transactions that serves as a proof of a transaction's history, right from recording to tracking all changes that may take place. For example, a sequentially numbered sales invoice copies would normally be listed in a Register and subsequently filed either in numerical or chronological order. Thus, it would be possible to trace a particular invoice from the daybook to the original file by reference to the number or date of the invoice.

In an automated environment accounting software provides the ideal example of audit trails. For example, when a transaction is entered in the software, the software will maintain a record of it. Any further edits made to the details, such as a change in the name or amount will also be tracked by the software along with the user who made the changes and the time of change. Even if some transactions were to be deleted, the software will track that as well and keep the record of everything since the original entry was made.

Statutory Requirement for Audit Trail:

According to Rule 3(1) of Companies (Accounts) Rules, 2014, as amended by Companies (Accounts) Amendment Rules, 2021, for the financial year commencing on or after the 1st day of April, 2022, every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

In simple words, the expectation is to maintain the edit log of every transition right from recording to tracking the changes that may take place.

(b) The Companies Act 2013: 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.- 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.As per Section 204(2), 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.

Moreover, Section 204(4) further provides that 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 two lakh rupees.

SEBI Regulations: As per Regulation 24A of the SEBI(LODR) Regulations, 2015, every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity.

In addition to the above, every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within sixty days from end of each financial year. (Amended by the SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021 w.e.f. 5.5.2021).

7. (a) Analyse the audit procedures to be followed for audit of revenue from operation.

(b) Discuss the role of NFRA in monitoring and enforcing compliance with auditing standards. [7+7 = 14]

Answer:

(a) Revenue from operation comprises sale of goods, sale of services and other operating revenues. Other operating revenue includes any revenue earned by the company from its operations other than its principal activities. For example, Discount Received, Bad Debt Recovery etc. For a finance company, revenue from operation primarily includes interest income and income from other financial services.

Audit Procedure to be Followed:

Apart from evaluating the adequacy of internal control with respect to revenue related transactions, the auditor shall resort to the following audit procedure to audit the revenue from operations.

(a) Occurrence:

(i) The auditor should ensure that all revenue items recognised are genuine and no sale transactions have been recorded twice.

(ii) He may test check a few invoices with accounting entries. Further, he should check the sequence of sales invoices, review the recording of unusual transactions, verify the return transactions with sales invoice, challan, credit note and stock records.

(iii) He should also obtain confirmation from few customers to check whether the transactions are genuine.

(iv) He should ensure that no fake sale transactions have been recorded.

(v) For services, he must see that revenue has been recognised based on the policy undertaken.

(b) Cut-off:

He shall see whether revenue from operation includes the sale made and services performed during the year only.

(c) Completeness:

The auditor should verify that all sales effected during the year have been included in revenue. He should apply the cut-off procedure to ensure that revenues are recognised in the current accounting period and check if year-end sale transactions have been tempered.

(d) Measurement

(i) The auditor shall see that revenues are accurately measured based on applicable Accounting Standards.

(ii) Trade discount allowed to the customers should be checked. No separate entry for trade discount should be passed in the books. If there is any significant variation in trade discount allowed to different customers, the auditor is required to inquire into the reason for such variations.

(iii) The sales tax, insurance charges, etc. collected through sales invoices must be recorded under separate accounts.

(e) Presentation and Disclosures:

The auditor shall ensure the following disclosure for revenue from operation in respect of a company other than a finance company as per Schedule III (Part 2):

(i) Disclosure should be available for each class of goods.

(ii) Revenue from operations shall disclose separately in the notes revenue from – (a) Sale of products; (b) Sale of services; (c) Other operating revenues; Less: (d) Excise duty.

(iii) In respect of a finance company, revenue from operations shall include revenue from - (a) Interest; and (b) Other financial services

(iv) Discount other than usual trade discount must be disclosed. Similarly, transactions with related parties should be separately disclosed in the Notes.

(v) In the case of companies rendering or supplying services, gross income derived from services rendered or supplied under broad heads.

(b) 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.

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:

(i) review working papers (including audit plan and other audit documents) and communications related to the audit;

(ii) evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and

(iii) perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate.

(2) The Authority may require an auditor to report on its governance practices and internal processes designed to promote audit quality, protect its reputation and reduce risks including risk of failure of the auditor and may take such action on the report as may be necessary.

(3) The Authority may seek additional information or may require the personal presence of the auditor for seeking additional information or explanation in connection with the conduct of an audit.

(4) The Authority shall perform its monitoring and enforcement activities through its officers or experts with sufficient experience in audit of the relevant industry.

(5) The Authority shall publish its findings relating to non-compliances on its website and in such other manner as it considers fit, unless it has reasons not to do so in the public interest and it records the reasons in writing.

(6) 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.

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

(8) Where the Authority finds or has reason to believe that any law or professional or other standard has or may have been violated by an auditor, it may decide on the further course of investigation or enforcement action through its concerned Division.

8. (a) Examine important areas, as regards auditing the accounts of a hospital.

(b) Discuss the benefits and limitations of Joint Audit. **[7 + 7= 14]**

Answer:

(a) Healthcare Organisations primarily include hospitals and nursing homes. They are established to provide medical services to the public. There may be hospitals run and funded by the Government or local authorities or by any charitable trust. These are generally non-profit seeking organisations. However, hospitals may also be established by private sector organisations. These are profit seeking organisations (and are popularly known as private nursing homes). Since healthcare organisations largely differs from other commercial organisations on account of their business processes, an auditor needs to prepare a sound audit plan to cover typical aspects of these organisations. Accordingly, the audit procedure must highlight the following steps:

(i) **Understand the Constitution:** Study all the relevant documents to determine its nature and ownership structure (i.e., trust, partnership or company). Study the trust deed (in case of trust), partnership agreement (in case of partnership business) and articles and memorandum of association (in case of a company) and accordingly identify the rules and regulation relating to its management and process of preparation of accounts.

(ii) **Assess the Internal Control System:** Evaluate the internal control system associated with acquisition and maintenance of assets, authorisation of transactions, etc. and determine the scope of the audit work.

(iii) **Consult the Minute Book:** Carefully examine the notices and minutes of the meeting of Board of Directors, Managing Committee and other committees (such as purchase committee) and identify the decisions which may affect the accounting. Confirm that the decisions undertaken with respect to operation of bank accounts, approval of expenditure, etc. have been duly complied with.

(iv) **Verify the Receipts Related Transactions:**

- In case of a hospital run by state government or any local authority, vouch the grants received from the state or the local authority based on Govt. Orders, sanction letters, counterfoil of receipts.
- Vouch collection from patients admitted to the paying beds based on the Patient Admission Registrar and counterfoil of receipts/ copies of bills.
- Vouch collection from various pathological tests based on the counterfoils of receipts/ copies of bills.
- Vouch donations based on the counterfoils of receipts.
- In case hospitals having guest houses, assess the collections based on the register, counterfoils of receipts and accounting entries.
- 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 therefrom is not utilized for any other purposes.

(v) **Verify the Payments Related Transactions:**

- Verify that all capital expenditure associated with machineries, furniture, vehicle, etc. is approved and supported by documentary evidences such as counterfoils cheque, invoices, tenders, etc.
- Vouch the salary paid to staff based on attendance register, payroll, etc. Examine that the appointment of casual staff and payment of their salaries are duly authorized.
- Verify doctor's remuneration should be verified based on the list of visits and operations performed.
- Verify the purchases of pathological test kits, X-ray plate and other consumables based on tenders, orders placed and invoices received.

- Vouch all other overhead expenses like telephone bills, electricity bills, fuel bills, etc. based on appropriate documentary evidences.

(vi) **Verification of Assets and Liabilities:**

- Verify the stock registers of medicines, food items and other equipment and check their valuations.
- Conduct physical verification of fixed assets and investments based on Fixed Asset Register and Investment Register respectively.
- Check the adequacy of depreciated and its accounting.
- Collect the list of all liabilities and verify them based on the contracts and arrear bills.

(vii) **Verification of Financial Statements:**

- Verify that the financial statements have been prepared in the manner and format appropriate to the nature (profit seeking or non-profit seeking) and ownership structure of the organisation.

(b) Joint audit refers to the process of conducting the audit of a single organisation by more than one auditor. Large Companies with diversified business operations often resort to this process of auditing where they employ multiple auditors to conduct statutory audit. The basic aim in applying joint audit is to pull the resources of multiple auditors to conduct audit efficiently and within lesser amount of time.

Benefits of Joint Audit:

The benefits of joint audit are as follows:

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

Limitations of Joint Audit:

The limitations of joint audit are enumerated below:

(i) Established auditors may have a superiority complex over the less experienced one.
(ii) It is not suitable for a small entity due to substantial cost burden.
(iii) At times, lack of coordination among the auditors may slow down the speed of work.
(iv) There may be uncertainty about the liability of any work.
(v) Areas of common concern may be neglected.
(vi) The auditors have to share the fees.