

SUGGESTED ANSWERS TO QUESTIONS

INTERMEDIATE EXAMINATION

GROUP – II

(SYLLABUS 2016)

DECEMBER – 2021

Paper-12: COMPANY ACCOUNTS AND AUDIT

Time Allowed: 3 Hours

Full Marks : 100

Section A MCQ

20X1=20 Marks

Q.1 In case of an Electricity Company, balance of Security Deposit A/c at the end of the accounting period should be disclosed as

- Ans
1. A non-current asset in the Balance Sheet
  2. A current liability in the Balance Sheet
  3. A non-current liability in the Balance Sheet
  4. A current asset in the Balance Sheet

Q.2 Which of the following is a part of functional classification of audit?

- Ans
1. Continuous audit
  2. Internal audit
  3. Cost audit
  4. Tax audit

Q.3 The term 'FPO', in the context of issuing shares by a company, refers to

- Ans
1. Future Public Offer
  2. First Public Offer
  3. Follow-on Public Offer
  4. Full Public Offer

Q.4 Which of following is not a source of dividend?

- Ans
1. Out of current year's profit after providing for past losses
  2. Out of profits of any previous financial year without providing depreciation
  3. Out of profits for current year after providing for depreciation for current year
  4. Out of past reserves subject to certain conditions

Q.5 Partly paid-up preference shares can be redeemed

- Ans
1. After obtaining the permission from Company Law Board
  2. After passing a special resolution
  3. After the permission from the Board Of Directors
  4. After making them fully paid up

**Q.6 Which of the following services by an auditor is not restricted under Section 144 of the Companies Act 2013?**

- Ans
1. Actuarial services
  2. Rendering outsourced financial services
  3. Investment Advisory Services
  4. Issuing Deposit Return Certificate

**Q.7 Appointment of a cost auditor is communicated to the Central Government through**

- Ans
1. CRA 1
  2. CRA 4
  3. CRA 2
  4. CRA 3

**Q.8 Cooling period of an individual auditor is**

- Ans
1. Two consecutive terms of 5 years each
  2. One term of 4 years
  3. Two consecutive terms of 4 years each
  4. One term of 5 years

**Q.9 Secretarial Audit is applicable to the Public company having turnover of at least**

- Ans
1. Rs.100 crores
  2. Rs.250 crores
  3. Rs.300 crores
  4. Rs.200 crores

**Q.10 Proposed Dividend by a company is**

- Ans
1. Appropriation of profit
  2. None of these
  3. Charge against the profit
  4. Deferred revenue expenditure

**Q.11 A company may purchase its own shares out of**

- Ans
1. free reserves
  2. all of these
  3. securities premium account
  4. proceeds of the issue of any shares or other specified securities

**Q.12 Copies of management letters are a part of**

- Ans
1. None of these
  2. Current Audit File
  3. Permanent Audit File
  4. Both Current and Permanent Audit File

**Q.13** For the issuer, unpaid matured debentures and interest accrued thereon will be shown under the head

- Ans
1. Non-current liabilities
  2. Non-current assets
  3. Current assets
  4. Current liabilities

**Q.14** Minimum penalty payable by a company for contravention of any provisions of Section 139 to 146 (both inclusive) of Companies Act 2013 is

- Ans
1. Rs.25000
  2. Rs.100000
  3. Rs.30000
  4. Rs.15000

**Q.15** An audit report with certain reservations is also known as

- Ans
1. Disclaimer of opinion
  2. Clean report
  3. Piecemeal report
  4. Qualified report

**Q.16** Which of the following is/ are the quantitative threshold(s) while identifying the reportable segments as per AS 17?

- Ans
1. 10% of the aggregate segment assets
  2. 10% of the aggregate segment result
  3. 10% of the aggregate total revenue
  4. All of these

**Q.17** How should the revaluation of Fixed Assets be treated in a Cash Flow Statement?

- Ans
1. Under cash flow from financing activities
  2. Do not appear in cash flow statement
  3. Under cash flow from operating activities
  4. Under cash flow from investing activities

**Q.18** SA 210 stands for

- Ans
1. Audit Documentation
  2. Audit Working Papers
  3. Agreeing the terms of Audit Engagements
  4. Audit Planning

**Q.19 Which of the following are mandatory financial statements of a General Insurance Company as per IRDA regulations?**

- Ans**
1. Balance Sheet
  2. Profit and Loss Account
  3. All of these
  4. Revenue Account

**Q.20 Grant received specifically for a fixed asset is disclosed in the financial statement:**

- I. By way of deduction from the gross block of asset
  - II. The grant is treated as deferred revenue income and charged off on a systematic basis over the useful life of asset.
- Which of the following is correct?

- Ans**
1. Both I and II
  2. Either I or II
  3. Only II
  4. Only I

**Q.1 Under what type of insurance business, claim will arise either on death of insured or on maturity of policy?**

**Answer :**

**Life**

**Q.2 Where is Debenture Redemption Reserve transferred after the redemption of all Debentures?**

**Answer :**

**General Reserve Account**

**Q.3 What is the name given to the part of capital of a company which is called up only on winding up?**

**Answer :**

**Reserve Capital**

**Q.4 Fill in the blank:**

**As per SQC 1, an auditor needs to retain the working papers for a period of \_\_\_\_\_ years.**

**Answer :**

**Seven (7)**

**Q.5 Fill in the blank:**

**Cost audit report is submitted by the company to the Central Government within \_\_\_\_\_ days from the receipt of a copy of the cost audit report from the cost auditor.**

**Answer :**

**Thirty (30)**

**Q.6 Fill in the blank:**

**\_\_\_\_\_ is a continuous critical review of financial and operating activities of a concern by appointed entity/person.**

**Answer :**

**Internal Audit**

**Q.7 Cash Flow arising from which of the following Operating, Investing or Financing Activities may be reported on a net basis? Name one item.**

**Answer :**

**Cash receipts and payments on behalf of customers when the cash flow reflect the activities of the customer rather than those of the entity OR cash receipts and payments for items in which turnover is quick, the amounts are large, and the maturities are short**

**Q.8 Fill in the blank:**

**The maximum amount beyond which a company is not allowed to raise funds by Issue of Share is known as \_\_\_\_\_.**

**Answer :**

**Nominal Capital**

**Q.9 What is the maximum number of members in Central Electricity Authority?**

**Answer :**

**14**

**Q.10 Fill in the blank:**

**Form CRA \_\_\_\_\_ is related to appointment of Cost Auditor.**

**Answer :**

**CRA 2**

**Q.11 Name the account to which dividend not paid or claimed for seven consecutive years or more is to be transferred.**

**Answer :**

**Investors Education and Protection Fund**

**Q.12 Fill in the blank:**

**Interest received by a finance company on loans granted to borrowers is shown under the head\_\_\_in the Statement of Profit and Loss.**

**Answer :**

**Revenue from Operations**

**Q.13 Fill in the blank:**

**Segment Reporting is covered under Accounting Standard\_\_\_\_\_.**

**Answer :**

**AS 17**

**Q.14 How will you treat Bank overdraft and Cash Credit in the Balance Sheet of a Company ?**

**Answer :**

**Short term borrowing**

**Q.15 Fill in the blank:**

**Every buyback of shares must be completed within a period of\_\_\_from the date of Passing special resolution.**

**Answer :**

**Within time limit as fixed in General Meeting**

**Q.16 Fill in the blank:**

**Internal Auditor is appointed by the\_\_\_\_\_.**

**Answer :**

**Management**

**Q.17 Can the balance of Securities Premium Account be utilized for making existing partly paid-up equity shares into fully paid-up?**

**Answer :**

**No.**

**Q.18 In case of Government Audit who is the supreme Audit Institution?**

**Answer :**

**Comptroller and Auditor General**

**Q.19 Fill in the blank:**

**A Banking Company is required to maintain\_\_\_\_\_percentage provision on unsecured portion of doubtful advances.**

**Answer :**

**100%**

**Q.20 What are the important contents of Permanent Audit File? (Name at least three)**

**Answer :**

**Memorandum and Articles of Association, copies of Financial statements of Previous years, significant Audit observations of previous years.**

Section : C  
(12X4= 48 Marks)  
One LAQ

Q.1

L Ltd. leased a machine to T Ltd. on the following terms:

3+3= 6 Marks

Sr. No.	Particulars	(Rs in Lakhs)
(i)	Fair Value of the machine	72
(ii)	Lease Term	5 Years
(iii)	Lease rental per annum	12
(iv)	Guaranteed residual value	2.40
(v)	Expected residual value	4.50
(vi)	Internal rate of return	15%

Discounted rates @15% for 1<sup>st</sup> Year to 5<sup>th</sup> Year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

From the above calculate

- I) **Gross investment in the lease**
- II) **Unearned Finance Income.**

**Answer :**

- i) **Gross investment in the lease**  
= Rs.64,50,000
- ii) **Unearned Finance Income.**  
= Rs. 22,03,620

Q.2

Total borrowing and interest cost for the year ending on 31.03.2020 are given below:

3+3= 6 Marks

Borrowing	Date of Borrowing	Amount (Rs.)	Interest (Rs.)
8% Term Loan	1.4.2019	20,00,000	1,60,000
8% Bank Loan	1.7.2019	60,00,000	3,60,000
6% Debentures	1.10.2019	40,00,000	1,20,000
		1,20,00,000	6,40,000

Qualifying assets in which these funds are utilized are:

Particulars	Amount (Rs.)	Period
Factory Shed	20,00,000	12 months
Plant A	14,00,000	8 months
Plant B	9,00,000	6 months

From the above information, calculate

- (i) **Capitalization rate**
- (ii) **Total interest cost to be capitalized.**

**Answer:**

- i) **Capitalization rate = 7.5%(approximately)**
- ii) **Total interest cost to be capitalized = Rs. 2,53,750**

Q.1

The following information has been provided by XYZ Ltd.

3+3+3+3= 12 Marks

**Balance Sheet of XYZ Ltd.**

	Particulars	Note No.	As on 31.03.2021	As on 31.03.2020
I	Equity and Liabilities			
	1. Shareholders' fund			
	(a) Share Capital		18,40,000	18,40,000
	(b) Reserves and Surplus	1	6,64,000	6,08,000
	2. Share application money pending allotment		Nil	Nil
	3. Non-Current Liability			
	(a) Long Term Borrowings (10% Debentures)		5,60,000	7,20,000
	4. Current Liabilities			
	(a) Trade Payables		7,68,000	8,24,000
	(b) Short term Provisions (Provision for Tax)		96,000	1,04,000
	Total		39,28,000	40,96,000
II	Assets			
	1. Non-current Assets			
	(a) Fixed Assets			
	(i) Tangible Assets	2	14,08,000	12,96,000
	(b) Non-current Investment		5,92,000	8,80,000
	2. Current Assets			
	(a) Inventories		8,48,000	6,56,000
	(b) Trade Receivables		3,44,000	5,36,000
	(c) Cash and Cash Equivalent		7,20,000	7,20,000
	(d) Short term loan and advances (Prepaid Expenses)		16,000	8,000
			39,28,000	40,96,000

## Notes to Accounts:

	1. Reserve and Surplus	As on 31.03.2021	As on 31.03.2020
	Balance of Profit	1,84,000	1,28,000
	General Reserve	4,80,000	4,80,000
		6,64,000	6,08,000
	2. Tangible Assets		
	(a) Land	12,00,000	12,00,000
	Machinery (Gross Block)	5,60,000	4,16,000
	Provision for depreciation	3,52,000	3,20,000
	(b) Machinery (Net Block)	2,08,000	96,000
	(a)+(b)	14,08,000	12,96,000



**Additional information:**

- (i) 10% dividend was paid during the year.
- (ii) Machinery for Rs.2,40,000 was purchased and old machinery costing Rs.96,000 (accumulated depreciation Rs. 48,000) was sold for Rs. 32,000.
- (iii) Rs. 1,60,000, 8% debentures were redeemed by purchase from open market at Rs.96 for a Debenture of Rs. 100. Redemption was carried out on 31.03.2021.
- (iv) Investments worth Rs. 2,88,000 were sold at a loss of Rs. 8,000.
- (v) Income tax paid during the year amounted to Rs. 80,000.

From the above information

- a. Determine the fund from operation**
- b. Calculate Cash Flow from operating activities**
- c. Calculate Cash Flow from investing activities**
- d. Calculate Cash Flow from financing activities**

**Answer:**

- a) Fund from operation = Rs. 4,09,600**
- b) Cash Flow from operating activities : Rs. 3,37,600**
- c) Cash Flow from investing activities : Rs. 72,000**
- d) Cash Flow from financing activities : Rs. (4,09,600)**

Q. 1

2+2= 4 Marks

M Ltd. sold goods to a US Company for US \$ 1,00,000 on 10.01.2021 and realized the due on 30.06.2021. Y Ltd. closes the books of accounts on 31<sup>st</sup> March every year.

Exchange rates were as follows:

Date	Rate (Rs.)
10.01.2021	69.20
31.03.2021	76.10
30.06.2021	74.30

- i) Calculate the exchange loss/gain on the reporting date.
- ii) Calculate the exchange loss/gain on the settlement date.

**Answer:**

- i) Exchange gain on the reporting date. (31.03.2021) = Rs.6,90,000
- ii) Exchange loss on the settlement date. (30.06.2021) = Rs. 1,80,000

**Q.2 Discuss various methods of obtaining audit evidence.**

**Answer:**

**Auditor obtains evidence in performing compliance and substantive procedures by any one or more of the following methods –**

**(a) Inspection - It consists of examining records, documents, or tangible assets. Inspection of records and documents provides evidence of varying degrees of reliability depending on their nature, source and the effectiveness of internal controls over their processing.**

**(b) Observation - It consists of witnessing a process or procedure being performed by others.**

**(c) Inquiry and Confirmation - Inquiry consists of seeking appropriate information from a knowledgeable person inside or outside the entity, Confirmation consists of the response to an inquiry to corroborate information contained in the accounting records.**

**(d) Computation - It consists of checking the arithmetical accuracy of source documents and accounting records or performing independent calculations.**

**(e) Analytical Review - It consists of studying significant ratios and trends and investigating unusual fluctuations and items.**

**Q.3 What are the duties of Statutory Auditor regarding reissue of forfeited shares?**

**Answer:**

**Auditor's duty regarding Re-issue of forfeited shares**

- i) The auditor should ascertain that the board of directors has the authority under the Articles of Association of the company to reissue forfeited shares. Check the relevant resolution of the Board of Directors.**
- ii) Vouch the amounts collected from the persons to whom the shares have been allotted and verify the entries recorded from re-allotment. Auditor should check the total amount received on the shares including received prior to forfeiture, is not less than par value shares.**
- iii) Verify that the computation of surplus amount arising on the reissue of shares credited to Capital Reserve Account and**
- iv) Where partly paid shares forfeited for non-payment of call, and re-issued as fully paid, the reissue is considered as an allotment at a discount and compliance of the provisions of Section 53 is essential.**

**Q.1 Discuss the provisions for reporting of Frauds by Auditors.**

**4 Marks**

**Answer:**

**Provisions for reporting of Fraud by Auditor**

- 1) For the purpose of sub-section (12) of section 143, in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below**
  - (i) Auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;**
  - (ii) On receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;**
  - (iii) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.**
- (2) The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an e-mail in confirmation of the same.**
- (3) The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number.**
- (4) The report shall be in the form of a statement as specified in Form ADT-4.**
- (5) The provision of this rule shall also, mutatis mutandis, to a cost auditor and a secretarial auditor during the - performance of his duties under section 148 and section 204 respectively.**

**Q.2 Discuss the importance of internal control system in an organization.**

**4 Marks**

**Answer:**

The various benefits accrue out of the Internal control system are enumerated below;

- i) Attainment of goal & Objectives: - A sound internal control helps the entity towards the attainment of goal & objective of the business.**
- ii) Reliable financial Information: A sound internal control helps the organization to set reliable financial information for managerial decision making.**
- iii) Compliance with law & Regulations: Sound Internal control system ensures various compliance with laws & regulation prevailing in the country .**
- iv) Efficient & Effective operation: - A sound internal control system ensures efficient and effective operations that accomplish the goals of the organizations and protect employees and assets of the business.**
- v) Prevention of fraud & errors: - A sound internal control system prevents and detects frauds and errors and ensures timely preparations of financial statements and various reports for decision making.**

**Q. 3 List the services that an Auditor cannot render U/S 144 of Companies Act 2013**

**4 Marks**

**Answer:**

- i) Accounting and bookkeeping services.**
- ii) Internal audit.**
- iii) Design and implementation of financial information system .**
- iv) Actuarial services .**
- v) Investment advisory services .**
- vi) Investment banking services .**
- vii) Rendering of outsourced financial services .**
- viii) Management services.**

**Q.1 Discuss the features of Cost Audit Report.**

**4 Marks**

**Answer:**

**Cost Audit Report:**

As per sub-rule (4) of Rule 6 of the companies (Cost Records and Audit) Rules 2014 as amended, a Cost Auditor is required to submit the Cost Audit Report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3 to Board of Directors of the company within a period of one hundred and eighty days from the closure of the financial year to which the report relates. Form for filling Cost Audit Report with the Central Government: As per sub-rule (6) of Rule 6 of the companies (Cost Records and Audit) Rules 2014 as amended, every company to whom cost auditor submits his or its report .

shall, within a period of thirty days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in form CRA-4 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014. It is to be noted that the cost audit report is required to be filed in XBRL format.

**Q.2 Discuss the basic elements of an Auditor's Report.**

**4 Marks**

**Answer:**

**The Basic Elements of the Auditors' Report are –**

- i. **Title:** The Auditor's Report should have an appropriate title i.e. "Auditor's Report". It should be distinguished from other Reports, e.g. reports of officers of the entity, Board of Directors.
- ii. **Addressee:** The Auditor's Report should be appropriately addressed as required by the circumstances of the engagement and applicable laws and regulations. Ordinarily, the Auditor's Report is addressed to the authority appointing the Auditor.
- iii. **Opening or Introductory Paragraph:** (a) The Auditor's Report should identify the Financial Statements of the entity that have been audited, including the date of and period covered by the Financial Statements (b) The Report should include a Statement that the Financial Statements are the responsibility of the entity's management and a Statement that the responsibility of the Auditor is to express an opinion on the Financial Statements based on the audit.
- iv. **Scope Paragraph:** (a) The Auditor's Report should describe the scope of the audit by stating that the audit was conducted in accordance with standards on auditing generally accepted in India. (b) The Report should include a statement that the audit was planned and performed to obtain reasonable assurance whether the Financial Statements are free of material misstatement. (c) The Auditor's Report should describe the Audit as including examining, on a test basis, evidence to support the amounts and disclosures in Financial Statements, assessing the accounting principles used in the preparation of the Financial Statements, assessing significant estimates made by management, in the preparation of Financial Statements, &evaluating the overall position of Financial Statements. (d) The Report should include a statement by the Auditor that the audit provides a reasonable basis for his opinion.
- V. **Opinion Paragraph:** The Opinion paragraph of the Report should indicate the Financial Reporting framework used to prepare the Financial Statements. It should state the Auditor's opinion as to whether the Financial Statements give a true and fair view in accordance with the financial reporting framework and, where appropriate, whether the Financial Statements comply with the statutory requirements.
- Vi. **Date of the Report:** The date of an Auditor's Report is the date on which the Auditor signs the Report expressing an opinion on the Financial Statements. The Auditor should not date the Report earlier than the date on which the Financial Statements are signed or approved by Management.
- vii. **Place of Signature:** The Report should name the specific location, which is ordinarily the city where the Audit Report is signed.
- viii. **Auditor's Signature:** The Report should be signed by the Auditor in his personal name. Where a Firm is appointed as the Auditor, the Report should be signed in the personal name of the Auditor and in the name of the Audit Firm. The Partner / Proprietor signing the Report should mention his ICAI Membership Number.

**Q.3 State the advantages of Joint Audit**

**4 Marks**

**Answer:**

**Advantages of Joint Audit:**

- Lower Workload
- Timely completeness of work
- Sharing of expertise
- Improve quality of service
- Healthy competition
- Quality of performance

**Q.1 Write short notes on Treatment of Voluntary Retirement Scheme Payments**

**3 Marks**

**Answer:**

**Treatment of Voluntary Retirement Scheme Payments**

- (i) Termination benefits to be paid irrespective of the voluntary retirement scheme i.e. balance in P.F, leave encashment; gratuity etc.
- (ii) Termination benefits which are payable on account of VRS i.e. monetary payment on the basis of years of completed service or for the balance period of service whichever is less and notice pay.

Expert Advisory Committee (EAC) opines in favour of treating the costs (except gratuity which should have been provided for in the respective accounting period) as deferred revenue expenditure since it is construed upon as saving in subsequent periods, on some rational basis over a period, preferably over 3 - 5 year. However, the terminal benefit is, to the extent these are not deferred should be treated as expense in the P/L Account with disclosure.

**Q.2 Write short notes on Auditing and Assurance Standards Relating to Audit of Fixed Assets**

**3 Marks**

**Auditing and Assurance Standards Relating to Audit of Fixed Assets**

1. The term Property, plant and equipment in respect of those entities which are required to comply with the relevant Revised AS refers to such tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

2. An asset can be classified as a PPE or otherwise, depending upon the use to which it is put or intended to be put. For example, assets which are classified as PPE in one type of business may be considered as current assets in another. Similarly, the same asset may be classified differently in an entity at different points of time. The recognition of Property Plant and Equipment should be done as per the principles laid down in the "relevant applicable AS".

**Q.3 Write short notes on Objective of Internal Object questionnaire**

**3 Marks**

**Answer:**

**Objective of internal control questionnaire.**

This is used to collect information to know about the internal control system and evaluate weakness of therein .

**Q.4 Write short notes on Advantages of Buyback of shares**

**3 Marks**

**Answer:**

**Advantages of buy-back of shares:**

**Buy-back of shares have the following advantages:**

- (i) A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital.
- (ii) Free reserves which are utilized for buy-back instead of dividend enhance the value of the company's shares and improve earnings per share.
- (iii) Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax.
- (iv) Buy-back may be used as a weapon to frustrate any hostile take-over of the company by undesirable persons .

**Answer:**

**Borrowing Cost as per AS-16:**

**Borrowing costs are interests and other costs incurred by an enterprise in connection with the borrowing of funds. The standard is applied in accounting for borrowing costs which include:**

- 1. Interest and commitment charges on bank borrowing and other short term borrowings;**
- 2. Amortization of discounts/premium relating to borrowings;**
- 3. Amortization of ancillary cost incurred in connection with arrangement of borrowings;**
- 4. Finance charges for assets acquired under finance lease or other similar arrangement**
- 5. Exchange difference in foreign currency borrowing to the extent it relates to interest element**



Q.1

4+2= 6 Marks

As per the present regulations in India, financial statements of companies must strictly adhere to the format prescribed in the relevant legislation for being acceptable to regulators as well as to various stakeholders.

PQR Ltd. registered as a company on 30.06.2018 and commenced operation with effect from 01.04.2019. The authorized capital of the company is 10,00,000 equity shares of Rs.10 each. The paid-up capital of the company is, however, 6,00,000 equity shares of Rs.10 each.

On 10.04.2021, the Board of Directors(BOD) has decided to undertake an expansion programme for which the capital expenditure is estimated at Rs.15,00,000. The BOD has decided to apply for an institutional loan to arrange the funds. The lender however, requires the financial statements of the company to be submitted in prescribed format along with the loan application.

The directors, being novice in this respect, have asked your help as an expert in drafting the financial statements of the company for the financial year 2020-21.

In this respect, the following information is available.

Particulars	Dr. Balances (Rs.)	Cr. Balances (Rs.)
Equity Share Capital: 6,00,000 shares of Rs. 10 each fully paid		60,00,000
12% Bank Loan		4,00,000
Furniture	4,50,000	
Machinery	15,00,000	
Building	25,00,000	
Non-current Investment	4,00,000	
Sales		96,00,000
Sales Return	8,00,000	
Interest Received on Investment		40,000
Interest on Bank Loan	40,000	
Purchase	66,40,000	
Purchase Returns		8,40,000
Opening Stock	4,00,000	
Discount	12,500	
Carriage on Goods Sold	2,78,000	
Rent and Taxes	1,20,000	
Trade Receivables	24,00,000	
Trade Payables		1,60,000
Advertisement	2,40,000	
Bad Debt	20,000	
Salaries	8,01,500	
Audit fees	54,000	
Contribution to P.F.	1,20,000	
Cash at Bank and in hand	2,64,000	
Total	1,70,40,000	1,70,40,000

**Additional Information:**

- (a) Closing Stock as on 31<sup>st</sup> March 2021 was Rs. 4,25,000
- (b) Depreciation Rates: Furniture 10%, Machinery 20% and Building 10%
- (c) Outstanding salaries as on 31<sup>st</sup> march 2021 was Rs. 1,24,500
- (d) Trade receivables include a sum of Rs 50,000 due from Mr. B. Reddy and trade payables include Rs. 30,000 due to him.
- (e) Create a provision for doubtful debt @ 5% on trade receivables.
- (f) Provide for income tax Rs. 1,60,000

On the basis of the above information

- i) You are required to determine the amounts of Employee Benefit Expenses, Finance Cost, Other Expenses and Depreciation the year ended on 31.03.2021 as they should appear in Notes to Accounts
- ii) You are required to determine the Profit after tax for the year ended on 31.03.2021.

Answer: (i)

- 1. Employee Benefit Exp. Rs. 10,46,000
- 2. Finance Cost Rs. 48,000
- 3. Other Expenses Rs. 8,43,000
- 4. Total Depreciation Rs. 5,95,000

(ii) Profit after Tax: Rs. 3,73,000

Q. 2 Mr AKC, partner of AKC & Associates, a newly started firm of Chartered Accountants while conducting the Statutory Audit of Great Foods Ltd (GFL) for the year ended 31.03.2021 has come across the various points as under:-

2+2+2= 6 Marks

(i) GFL has shown in the Accounts, a plot of Land at Cost valued at Rs 200 lakhs, but could not produce any title deeds of the same. GFL Management, however, has shown the vacant plot of Land to Mr AKC, Partner.

Faced with these anomaly, Mr AKC has gone to his friend Mr BKB, a more senior member of the profession and sought his opinion regarding how he should deal with the situation.

What opinion Mr BKB should give to Mr AKC under the circumstance?

(ii) GFL has not provided satisfactory evidence regarding realisability of Debts to the extent of Rs. 80 lakhs. In fact, it has been observed that one of the clients from whom an amount of Rs. 20 lakhs has been shown as Debtor by GFL in the Accounts, has since filed for insolvency. However, the Management of GFL has provided the Auditor with a letter stating that they have understanding with the defaulting client that they would settle the claim of Rs. 20 lakhs in individual capacity, if the situation arises.

Faced with these anomaly, Mr AKC has gone to his friend Mr BKB, a more senior member of the profession and sought his opinion regarding how he should deal with the situation.

What opinion Mr BKB should give to Mr AKC under the circumstance?

(iii) As per GFL Balance Sheet under Audit the Company has negative Net worth and a negative Current Assets Ratio. GFL management has requested AKC & Associates to provide a clean Audit Report as they are negotiating with its Bankers for additional loans

Faced with these anomaly, Mr AKC has gone to his friend Mr BKB, a more senior member of the profession and sought his opinion regarding how he should deal with the situation.

What opinion Mr BKB should give to Mr AKC under the circumstance?

Answer:

Mr BKB's advice to Mr AKC to follow the following lines:

The circumstances are such that AKC and Associates should give a Qualified Audit Report stating as under:

- (i) "We are unable to form an opinion about the realisability of an amount of Rs. 200 lakhs, included in Assets under the heading of Freehold Land, as the Company has failed to provide any Title Deed for the same
  - (ii) There is doubt about realisability of an amount of Rs 20 lakhs included in Debtors under Current Assets"
- As regards Para
- (iii) Of the Query the Report of Auditor should contain a Note in a separate Paragraph stating about the "Going Concern Concept" of the Company. This needs to be emphasized only and not Qualify the Report, as such.