

PAPER – 10 : CORPORATE ACCOUNTING AND AUDITING

SUGGESTED ANSWERS

SECTION - A

1.

- (a) (C)
- (b) (A)
- (c) (A)
- (d) (B)
- (e) (D)
- (f) (B)
- (g) (C)
- (h) (B)
- (i) (D)
- (j) (A)
- (k) (C)
- (l) (B)
- (m) (A)
- (n) (B)
- (o) (C)

SECTION – B

2. (a)

In the books of A Ltd.

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
(i)	Equity Share Capital A/cDr. To Calls in Arrear A/c To Forfeited Shares A/c	3,00,000	1,50,000 1,50,000
(ii)	Equity Share Capital A/cDr. To Calls in Arrear A/c To Forfeited Shares A/c	6,00,000	1,20,000 4,80,000
(iii)	Bank A/cDr. Forfeited Shares A/cDr. To Equity Share Capital A/c	8,10,000 90,000	9,00,000
	Forfeited Shares A/c..... Dr. To Capital Reserve A/c	5,40,000	5,40,000
(iv)	Bank A/cDr. To Equity Share Capital A/c To Securities Premium A/c	78,00,000	60,00,000 18,00,000

2. (b)

- (i) Theoretical market price = ₹ 33.14
(ii) Value of Rights = ₹ 8.86
(iii) % increase in share capital = 40%

3.

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

Particulars	₹
I. Total Revenue	5,32,000
II. Total Expenses	3,70,000
III. Profit before Tax (I-II)	1,62,000
IV. Tax Expenses @ 30%	48,600
V. Profit for the period	1,13,400

Balance Sheet as on 31.03.2023

	₹
I EQUITY AND LIABILITIES	
(1) Shareholders' Funds	3,78,400
(2) Non-Current Liabilities	2,00,000
(3) Total Current Liabilities	1,61,600
Total	7,40,000
II ASSETS	
(1) Non-Current Assets	4,05,000
(2) Current Assets	3,35,000
Total	7,40,000

4. (a)

Statement of Interest on Working Capital

(₹ in lakhs)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Total Working Capital	4,350	4,350	4,550	4,550	4,550
Rate of Interest	12%	12%	12%	12%	12%
Interest on Working Capital	522	522	546	546	546

4. (b)

In the Books of Well Assurance Co. Ltd.
Valuation Balance Sheet as on 31st March, 2023

Liabilities	₹	Assets	₹
Net Liability as per Actuarial Valuation	1,65,00,000	Life Assurance Fund	2,40,00,000
Surplus / Net Profit	75,00,000		
	2,40,00,000		2,40,00,000

Profit Distribution Statement

Particulars	₹ (In Lakhs)
Surplus / Net Profit	75,00,000
Add: Interim Bonus Paid	25,00,000
	1,00,00,000
Policy Holders' Shares	95,00,000
Less: Interim Bonus Paid	25,00,000
	70,00,000
Shareholders' Share	5,00,000

Journal

Date	Particulars	Debit (₹)	Credit (₹)
	Life Assurance Fund A/c Dr.	75,00,000	
	To Profit and Loss A/c		75,00,000
	Profit and Loss A/c Dr.	37,80,000	
	To Bonus (In Cash) Payable A/c		37,80,000
	Profit and Loss A/c Dr.	44,40,000	
	To Life Assurance Fund A/c		44,40,000

5. (a)

Basic EPS = ₹ 5.00

Diluted EPS = ₹ 4.71

5. (b)

Cash Flow from Operating Activities ₹ 10,30,000

6. (a)

Concept of Audit Trail

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.

6. (b)

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

1. Every listed company;
2. Every public company having a paid-up share capital of 50 crore rupees or more; or
3. Every public company having a turnover of 250 crore rupees or more; or
4. Every company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more,

- is required to annex with its Board's Report made in terms of Section 134(3) of the Companies Act, 2013, a Secretarial Audit Report, given by a Company Secretary in practice, in Form MR-3. Appointment of Secretarial Auditor As per Rule 8 of the Companies (Meetings of Board and its Powers) Rules, 2014, read with Section 179 of the Companies Act, 2013, secretarial auditor is required to be appointed by means of resolution at a duly convened board meeting.

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

7. (a)

Audit Procedure for Unpaid Dividend

- (i) The auditor should collect a statement or list containing every detail regarding the unpaid dividend such as the names of the shareholders, dividend payable to them, dividend warrant number, reason for the dividend remaining unpaid etc.
- (ii) The auditor shall conduct an enquiry to identify whether there was any fault on the part of the company and if so, what action has been taken against the company.
- (iii) The auditor shall verify the statement provided by the management in this respect with other supporting documents like Dividend Register, Returned Warrants, bank statement, etc. and shall determine whether the dividend amount has been accurately calculated.
- (iv) The auditor shall also verify whether the unpaid dividend has been transferred to a separate account namely Unpaid Dividend Account within seven days from the expiry of 30 days allowed for declaration and payment of dividend.
- (v) The auditor must verify whether there is any fault on the part of the company and if so whether they have deposited the interest and the penalty.
- (vi) The auditor shall also verify whether the company has published the details of unpaid dividend in its own website and also in other website(s) approved by the government for this purpose.
- (vii) Any payment of previously unpaid dividend must be verified by the auditor to see that the same has been paid to the rightful owner.
- (viii) In case any amount of dividend is remaining unpaid for more than seven years, the auditor shall verify whether the same along with the interest accrued thereon has been transferred by the company to IEPF.
- (ix) The auditor shall also verify whether all the shares in respect of which unpaid dividend has been transferred to IEPF, have also been transferred to such fund.

7. (b)

The Cost Auditor is to be appointed by the Board of Directors (BOD) on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors.

The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2 along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors (BOD) within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

8. (a)

Audit Procedure for Receipts Related Transactions of an Educational Institution

- (i) **Tuition Fees:** Tally the counterfoils of fee receipt with fee register to see whether they have been duly recorded or not. Check the register to identify whether all the students have paid their fees in due time. If any student has deposited the fees beyond the due date, check whether late fine has been charged or not and whether the same has been properly recorded. See whether all collections are deposited in the bank account at the end of the day. 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.
- (ii) **Admission Fees:** Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund, unless the Managing Committee has taken a decision to the contrary.
- (iii) **Other Fees:** Verify the collection of other fees such as library fees, session fees or development fees, fees for hostel etc. based on the counterfoils and fee registered and ensure that the fees have been accounted for in appropriate heads.
- (iv) See that all arrears on account of fees, fines, etc. have been taken into consideration at the end of accounting period.
- (v) See that free studentship and concessions have been granted by a person authorised to do so, having regard to the prescribed Rules.
- (vi) Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
- (vii) Verify grants received from Government or other organisations based on the sanction letter and bank statement.
- (viii) Ensure that donation received, if any, has been acknowledged and recorded properly in the books of accounts.
- (ix) Check income from letting out institutional properties based on the counterfoil of receipts issued to parties.
- (x) Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.

8. (b)

Role of NFRA in 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:
 - (a) review working papers (including audit plan and other audit documents) and communications related to the audit;
 - (b) evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and
 - (c) 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.
