PAPER – 10 : CORPORATE ACCOUNTING AND AUDITING

SUGGESTED ANSWERS

SECTION-A

1.

(i) (C)

(ii) (D)

(iii) (B)

(iv) (D)

(v) (D)

(vi) (A)

(vii) (C)

(viii) (B)

(ix) (C)

(x) (D)

(xi) (C)

(xii) (D)

(xiii) (D)

(xiv) (C)

(xv) (D)

SECTION-B

2. (a)

In the books of P Ltd.
Journal

Date	Particulars	L.F	Debit (₹)	Credit (₹)
1st	Equity Share Capital A/c …… Dr. Securities Premium A/c Dr. To Equity Share Allotment A/c To Equity Share Call A/c To Forfeited Share A/c		3,000 200	 500 1,200 1,500
	Alternatively, Equity Share Capital A/c ….. Dr. Securities Premium A/c Dr. To Calls-in-arrear A/c To Forfeited Share A/c		 3,000 200	 1,700 1,500
2nd	Bank A/c………………………………… Dr. Forfeited Share A/c……………………… Dr. To Equity Share Capital A/c		2,000 500	 2,500
3rd	Forfeited Shares A/c …………………………Dr. To Capital Reserve A/c		700	 700

Note: Entries to be supported by Narration.

Calculation of Amount to be transferred to Capital Reserve

Amount forfeited per share of M	₹ 3
Less: Loss on re-issue per share	₹ 2
Surplus	₹ 1
Amount forfeited per share of N	₹ 6
Less: Loss on re-issue per share	₹ 2
Surplus	₹ 4

Transferred to Capital Reserve: M's share (100 x ₹ 1) = ₹100;
N's share (150 x ₹ 4) = ₹ 600.

Total = ₹100 + ₹ 600 = ₹700.

2. (b)

(i) Number of shares issued:

Debenture holders opted for conversion (40,000 /100) = 400

Option for conversion = 20%

Number of debentures to be converted (20% of 400) = 80

Redemp. value of 80 debentures at a premium of 5% [80 x (100+5)] = ₹ 8,400

Equity shares of ₹ 10 each issued on conversion [₹ 8,400/ ₹.20] = 420 shares

(ii) Cash to be paid:

Number of debentures - number of debentures to be converted into equity shares= 400- 80 =320 Debentures

Redemption value of 320 debentures (320 × ₹ 105) = ₹ 33,600

(iii) Journal of Akash Limited:

Date	Particulars	L.F.	Dr.(₹.)	Cr.(₹)
1	Debentures A/c Dr.		40,000	
	Premium on redemption A/c Dr.		2,000	
	To Debenture holders A/c			42,000
2	Debenture holders A/c Dr.		42,000	
	To Equity Share capital A/c			4,200
	To Securities premium A/c			4,200
	To Bank A/c			33,600

Note: Entries to be supported by Narration.

3.

Alpha Ltd.

Statement of Profit and Loss for the year ended 31st March, 2024

Particulars	Amount(₹)
I. Revenue from operations	57,00,000
II. Other income (Income from Govt. Securities)	24,000
III. Total Revenue [I + II]	57,24,000
IV. Expenses:	
Cost of purchase	32,00,000
Changes in inventories	(50000)
Employee Benefits Expense	7,72,000
Finance Costs	30,000
Depreciation and Amortization Expenses	5,00,000
Other Expenses	4,45,750
Total Expenses	48,97,750
V. Profit before Tax (III-IV)	8,26,250
VI. Provision for Tax	1,50,000
VII. Profit for the period	6,76,250

Balance Sheet as on 31.03.2024

	Note No.	Amount(₹)
I EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
Share Capital	1	30,00,000
Reserves and Surplus	2	11,76,250
(2) Non-Current Liabilities		
Long-term Borrowings (10% debentures)		3,00,000
(3) Current Liabilities		
Trade Payable		2,00,000
Other Current Liabilities	3	7,500
Short-Term Provisions (Provision for tax)	4	1,50,000
Total		48,33,750
II ASSETS		
(1) Non-Current Assets		
(a)PPE	5	31,00,000

(b)Non-current Investments (12%L T Govt. Securities)		2,00,000
(2) Current Assets		
Inventories		3,50,000
Trade Receivables	7	9,61,750
Cash and bank balances		2,22,000
Total		48,33,750

Note: Contingent Liability for Proposed Dividend (3000000 x 10%) = ₹ 3,00,000.

Notes to Accounts:

	Particulars		Amount(₹)
1.	Share Capital		
	Subscribed and Paid-up Capital		
	300000 Equity Shares of Rs. 10 each		30,00,000
2.	Reserve and Surplus		
	General Reserve		3,00,000
	Balance of Statement of Profit & Loss A/c		
	Opening Balance	3,00,000	
	Add: Profit for the period	6,76,250	
		9,76,250	
	Appropriations		
	Transfer to General Reserve	(1,00,000)	
			8,76,250
			11,76,250
3.	Other Current Liabilities		
	Interest accrued on Debentures		7,500
4.	Short Term Provision		
	Provision for Tax		1,50,000
5.	PPE		
	Buildings	1200000	
	Less: Depreciation	60000	1140000
	Machinery	2000000	
	Less: Depreciation	400000	1600000
	Motor van	400000	
	Less: Depreciation	40000	360000
			31,00,000
6.	Total depreciation		5,00,000
7.	Trade Receivables		
	Sundry Debtors	10,00,000	
	Less: Provision for Doubtful Debts	38,250	
			9,61,750
8.	Employee Benefit Expenses		
	Salaries	6,72,000	
	Contribution to P.F. and Gratuity Funds	1,00,000	
			7,72,000
9.	Finance Cost		
	Interest on Debenture	22,500	
	Outstanding Interest on Debenture	7,500	
			30,000
10.	Other Expenses		
	Discount Allowed	7,500	
	Carriage Outward	1,50,000	
	Rent and Rates	50,000	
	Advertisement	1,50,000	
	Bad Debt	20,000	
	Misc. Expenditure	30,000	
	Provision for Doubtful Debts	38,250	4,45,750

4. (a)

Secured and unsecured portion of loan

Date	Particulars	Amount(₹)
31.03.2024	Balance of Loan (Principal)	15,00,000
	Add: Outstanding Interest	1,97,112
	Total Claim	16,97,112
	Less: Value of security at that date	14,70,000
		2,27,112
	Classification: Secured portion of loan. Unsecured portion of loan	14,70,000 2,27,112

Outstanding interest

Quarter ending	Interest (₹)	Closing balance with Principal (₹)
31.03.2023	37,500	15,37,500
30.06.2023	38,438	15,75,938
30.09.2023	39,398	16,15,336
31.12.2023	40,383	16,55,719
31.03.2024	41,393	16,97,112
	1,97,112	

4. (b)

Statement showing Life Assurance Fund

Particulars	Amount(₹)	Amount(₹)	Amount(₹)
Balance of Fund as on 31st March, 2023			30,00,000
Add:			
Interest on securities		4,100	
Premium outstanding		2,700	
			6,800
Less:			30,06,800
Claims outstanding	13,250		
(-) Covered under re-insurance	6,000	7,250	
Bonus in reduction of premium		2,250	
			9,500
Balance of Life Assurance Fund			29,97,300

5. (a)

Bonus payable for current year = ₹..300000 + 6% of ₹.300000 = ₹ 3,18,000

No. of employees in payroll = 450 – 8% of 450 = 414

Provision for bonus = ₹.318000 x 414 = ₹ 13,16,52,000

Note: Here, the company has a constructive obligation and not a legal obligation to increase the bonus.

This will be falling under the category of Short Term Employee Benefit.

5. (b)

Y Ltd.

Cash Flow Statement for the year ended on 31.03.2023

Particulars	Amount(₹)
Cash Flows from Operating Activities	
Net Profit before Taxation	10,00,000
Add back:	
Depreciation on Fixed Assets	2,95,000
Discount on Issue of Debentures	15,000
Interest Expenses (Debentures)	1,75,000
	14,85,000
Less: Profit on Sale of Investment	(10,000)
Less: Interest Income from Long-term Investments	(30,000)
Cash Generated from Operations Before WC Changes	14,45,000
Less: Increase in non-cash working capital(639000-586000)	
Cash Generated from Operations	(53,000)
Less: Income-tax Paid	13,92,000
Net Cash from Operating Activities	(5,25,000)
	8,67,000

6. (a)

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

(i). Division of work:
The entire task should be divided among the staff in such a way that no single person is allowed to complete the work solely by himself from the beginning to the end.

(ii). Provision of check:
There must be clear instruction that the work performed by any staff must be checked by the next staff.

(iii). Responsibility:
Responsibility of each individual must be properly defined and fixed.

(iv). Use of technology:
As far as possible, various technology enabled devices should be used to minimise human error.

(v). Rotation of employees:
A system of transfer or rotation of employees from one responsibility to another must be followed by the business.

(vi). Control over employees:
Generally, chances of frauds are high in case there is direct contact between staff and the customers. So, a manager can keep eyes in those areas to make internal check system more effective.

(vii). Supervision:
A strict supervision should be exercised to ensure that the prescribed internal checks and procedures are fully operative.

(viii). Periodical review:
The system of internal check is reviewed from time to time to introduce improvements.

6. (b)

Applicability and Conduct of Secretarial Audit:

(a) 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 100crore 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 No. 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.

(b) 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)

Difference Between Audit Report and Audit Certificate:

Points	**Auditor's Report**	**Auditor's Certificate**
Nature	It is an expression of opinion about the financial statements.	It is a confirmation of correctness and accuracy about some matters.
Basis of audit	The report is based on facts, assumptions and estimations	The certificate is based on actual figures and facts.
Scope	The scope of audit report is large.	Its scope is limited
Advice	In audit report, there is a scope of giving constructive advice to the company.	No scope of constructive advice exists in the case of the certificate.
Guarantee	Audit report is an opinion by the auditor and does not guarantee the accuracy of the financial statements	Audit certificate is a formal statement by the auditors which guarantee the accuracy of the facts stated therein
Time of issue	The report is submitted to the appointing authority only after the audit is complete.	Certificates are issued as and when required.
Liability of auditor	As a report is merely an opinion, if it is not correct, the auditor may not be held responsible, unless he is found to be negligent to his duty.	In case of the wrong certificate, the auditor will be held responsible.

7. (b)

Role Of NFRA**:** The NFRA's role, it is a statutory body established by the Companies Act of 2013. Its major responsibility is ensuring that Auditing and Accounting Standards for Public Interest Entities are followed.

- The NFRA oversees the Quality Review Board. Its primary function will be quality audits of public, listed and private firms. This will allow the NFRA to contribute to the development of legislation governing accounting and auditing.
- The NFRA has the authority to investigate professional misconduct, levy fines, and potentially prevent a Practicing Professional from practising for 10 years.
- The NFRA, in addition to supervising the auditing profession, advises the Central Government on accounting standards and auditing rules.
- The National Financial Reporting Authority can also investigate misbehaviour, chequebooks, papers, and oaths.

- The NFRA will be tasked with ensuring the quality of its members' services and defining criteria for auditors and auditing companies.
- The NFRA may also organize research groups, advisory committees, and task teams. These organizations are in charge of developing people's awareness of auditing standards, as well as auditor obligations and quality.
- If the auditors commit fraud, the regulator may suspend them for ten years or more. A fine of up to five times the auditor's fees can also be levied.
- The NFRA may also become a member of worldwide or regional groups of independent audit regulators. In addition to these core responsibilities, the NFRA may be in charge of specific financial companies.
- Its role has expanded to encompass the creation of standards that are applicable to all enterprises and professions. The NFRA can also undertake industry studies and enlist the assistance of other specialists.
- The NFRA may also ask additional experts to assist in the creation of accounting principles and other relevant functions. Previously, the Central Government mandated accounting standards based on ICAI recommendations. This body, however, has been superseded by the NFRA.

Alternative:

Role of NFRA:

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:

(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.

C. Power to Investigate

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

(i) investigate any matter of professional or other misconduct under sub-section (4) of section 132 of the Act;

(ii) undertake investigation into any matter on the basis of its compliance or oversight activities; or

(iii) undertake suo-motu investigation into any matter of professional or other misconduct, after recording reasons in writing for this purpose.

If, during the investigation, the Authority has evidence to believe that any company or body corporate has not complied with the requirements under the Act or rules which involves or may involve fraud amounting to rupees one crore or more, it shall report its findings to the Central Government.

On the commencement of these rules-

(a) the action in respect of cases of professional or other misconduct against auditors of companies referred to in rule 3 shall be initiated by Authority and no other institute or body shall initiate any such proceedings against such auditors:

Provided that no other institute or body shall initiate or continue any proceedings in such matters of misconduct where the Authority has initiated an investigation under this rule;

(b) the action in respect of cases of professional or other misconduct against auditors of companies or bodies corporate other than those referred to in rule 3 shall continue to be proceeded with by the Institute of Chartered Accountants of India as per provisions of the Chartered Accountants Act, 1949 and the regulations made thereunder.

8. (a)

The following are the steps to be taken by an auditor of a co-operative society:

(i) General Points:

In general, while conducting audit of Co-operative society,the auditor needs to lookinto the following: -

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

(ii) Audit of income:

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

(iii) Audit of Expenditure:

- He should vouch all expenditure with reference to authorisation from the Managing Committee, particularly in the case of large capital expenditure, as also the bills received from individual parties, the money receipts obtained from them, and entries in the Bank Pass Book along with counter-foils of cheques.

- He should vouch the payment of loans from the loan agreements entered into with borrower members.

- He should vouch establishment expenses with reference to the resolutions of the Managing Committee, agreements with the persons concerned, and money receipts obtained from them.

(iv) Other points:

- He should appropriately classify overdue debts for a period from six months to five years and more, and report them to the members, with a note regarding the effects these might have on the financial position of the society. He should also put a note regarding the probability of recovery of such debts.
- Similarly, he should make a special reference to the overdue amount of interest from members. Generally, interest on overdue debts should not be credited to Interest Account but to the Overdue Interest Reserve Account.
- Writing off of bad debts should be after prior authorisation from the Managing Committee of the society. According to the Maharashtra Co-operative Societies Rules, a bad debt can be written off only when it is certified to be irrecoverable by the auditor. This casts a special obligation on the auditor to ascertain whether the debt in question was created within the Rules of the society, and whether it has now really become bad and irrecoverable.

8. (b)

Provisions Relating to Appointment of First Auditor

(I) In case of a company other than a Government Company [Section 139(6)]

- The first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within thirty days from the date of registration of the company.

- In the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall appoint such auditor within ninety days at an extraordinary general meeting.

- The auditor, so appointed, shall hold office till the conclusion of the first annual general meeting.

(II) In case of a Government Company [Section 139(7)]

- In the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller and Auditor-General of India within sixty days from the date of registration of the company.
- In case the Comptroller and Auditor-General of India does not appoint such auditor within the aforesaid period, the Board of Directors of the company shall appoint such auditor within the next thirty days.
- Further, in the case of failure of the Board to appoint such auditor within the next thirty days, it shall inform the members of the company who shall appoint such auditor within sixty days at an extraordinary general meeting.
- The auditor, so appointed, shall hold office till the conclusion of the first annual general meeting.