INTERMEDIATE EXAMINATION

June 2023

P–10(CAA)

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.

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

Section-A

(Corporate Accounting)

Answer Question No.1 and *any three* from Question Nos. 2, 3, 4 and 5.

1. (a) **Choose the correct alternative:** 1×6=6

(i) Net profit for the year ended 31.03.2022 ₹ 15,000, interest received in advance on 1st January, 2022 ₹ 2,000 and 31st December, 2022 ₹ 3,000. Cash from operations will be ________.

(A) ₹ 16,000

(B) ₹ 22,000

(C) ₹ 13,000

(D) ₹ 15,000

(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 principle of insurance?

(A) Principle of indemnity

(B) Insurable interest

(C) Principle of uberrimae fidei

(D) All of the above

(iv) A banking company is required to maintain _______ % provision on unsecured portion of doubtful advances.

(A) 25

(B) 40

(C) 50

(D) 100

(v) Balance of Interest Accrued on Security Deposit A/c of an electricity company should be shown under ________.

(A) Current Liability

(B) Non-current Liability

(C) Current Assets

(D) Non- current Assets

(vi) Which of the following is not a condition of Buy-back of securities/shares?

(A) Both fully and partly paid-up securities can be bought back.

(B) Buy-back must be authorised by the articles of association.

(C) Buy-back must be authorised by passing a special resolution in general meeting.

(D) Buy-back should be completed within 1 year from the state of passing of special resolution.

(b) **State whether the following statements are True or False:** 1×4=4

(i) In case of an underwriting arrangement, 'Unmarked' applications are those applications which bear the stamp of an underwriter.

(ii) Payment of income tax is classified under cash flow from financing activity.

(iii) Provisions shall be recognized as an expense in Profit and Loss Statement.

(iv) Ind AS 33 deals with earning per share.

(c) **Fill in the blanks:** 1×4=4

(i) Where a share is issued at a value greater than its face value, it is said to be issued at a _________.

(ii) Stock-in-Trade (in respect of goods acquired for Trading) are classified as _________.

(iii) Contingent liabilities do not have any _________ obligation.

(iv) Bonus paid at the end along with the policy amount to the policy holders is called _________.

2. (a) M Ltd, incorporated on April 1, 2021, Issued a prospectus inviting application for 2,50,000 equity shares of ₹ 10 each. The issue was fully underwritten by A, B, C and D as follows:

A - 1,00,000, B - 75,000, C - 50,000 and D - 25,000

The applications were received for 2,25,000 shares of which marked applications were as follows:

A - 1,10,000, B - 45,000, C - 55,000 and D - 5,000

Unmarked applications are apportioned in the ratio of "Gross Liability".

You are required to determine the underwriters' liability in shares. 4

(b) Books of N. Limited show the following balances on 31st December, 2022:

	₹
15,000 present equity shares of ₹ 10 each fully paid	1,50,000
2,500 10% Redeemable preference shares of ₹ 100 each fully paid	2,50,000
500 8% Redeemable preference shares of ₹ 100 each, ₹ 70 paid up	35,000
General Reserve	75,000
Profit and Loss Account	1,60,000
Securities Premium	15,000
Investment	1,20,000
Cash at Bank	39,600

On 1st January, 2023, the Board of Directors decided to redeem the preference shares at a premium of 8%. In order to pay to the preference shareholders, the company also decided to sell the investments and use company's funds and to raise the balance by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 1 per share, subject to leaving a minimum bank balance of ₹ 9,600 after such redemption. Investments were sold at ₹ 1,08,000.

Show the necessary Journal entries to record the transactions. 8

3. (a) On the basis of the following information provided by ABC Limited prepare a Cash Flow Statement for the year ended 31st March, 2023.

(i) Company sold all the goods for cash only and purchased the goods on credit only.

(ii) The company earned a Gross Profit of ₹ 4,00,000 with a Gross Profit Ratio of 25%.

(iii) The closing inventory was higher than the opening inventory by ₹ 20,000.

(iv) The company paid ₹ 4,50,000 as wages and ₹ 90,000 as office expenses during the year.

(v) Balance of suppliers accounts on 31.3.22 were higher than the balance on 31.3.23 by ₹ 30,000.

(vi) Tax paid by the company amounts to ₹ 80,000 while provision for taxation was ₹ 70,000.

(vii) The company repaid bank loan of ₹ 1,75,000 which included interest of ₹ 15,000.

(viii) Dividend paid during the year ₹ 50,000.

(ix) The company sold investments of ₹ 6,00,000 at a profit of ₹ 40,000.

(x) Depreciation charged on fixed assets ₹ 1,20,000.

(xi) Furniture purchased during the year ₹ 2,00,000.

(xii) Cash and Cash Equivalents as on 31.3.22 was ₹ 1,00,000.

(xiii) Cash and Cash Equivalents as on 31.3.23 was ₹ 4,95,000. 8

(b) Given below are the details of interest on advance of a Commercial Bank as on 31.3.2023:

(₹ in Crore)

Particulars	Interest Earned	Interest Actually Received
Performing Assets		
Term Loan	240	160
Cash Credit and Overdraft	1,500	1,240
Bills Purchased and Discounted	300	300
Non-Performing Assets		
Term Loan	150	10
Cash Credit and Overdraft	300	24
Bills Purchased and Discounted	200	40

Find out the income to be recognized for the year ended 31st March, 2023. 4

4. From the following particulars furnished by N M Ltd., prepare the Balance Sheet as on 31st March, 2023 as required by Part I, Schedule III of the Companies Act, 2013: 12

(As at 31-3-2023)

Particulars		Debit (₹)	Credit (₹)
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000

Particulars		Debit (₹)	Credit (₹)
Inventory:			
Raw Materials	2,55,000		
Finished Goods	10,00,000	12,55,000	
Provision for Taxation			6,40,000
Trade Receivables		10,00,000	
Short Term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			10,00,000
Total		94,78,500	94,78,500

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The Balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is secured by hypothecation of Plant & Machinery.

(v) Balance of Bank includes ₹ 10,000 with Galaxy Bank Ltd. which is not a Scheduled Bank.

(vi) Transfer ₹ 20,000 to general reserve as proposed by Board of Directors.

5. (a) The following information applies to a company's defined benefit pension plan for the year:

Fair Market Value (FMV) of plan assets (beginning of the year): ₹ 2,80,000
Fair Market Value (FMV) of plan assets (end of the year): ₹ 3,90,000
Employer's contribution : ₹ 85,000
Benefit paid: ₹ 70,000
Calculate the actual return on plan assets. 4

(b) The life insurance fund of PQR Life Insurance Co. Ltd. was ₹ 34,00,000 on 31st March, 2023. Its actuarial valuation on 31st March, 2023 disclosed a net liability of ₹ 28,80,000. An interim bonus of ₹ 40,000 was paid to the policy holders during the previous two years. It is now proposed to carry forward ₹ 1,10,000 and to divide the balance between the policy holders and the shareholders. Show

(i) The Valuation Balance Sheet.

(ii) The Net Profit for the two-year period, and

(iii) The Distribution of the Profits. 8

Section – B

(Auditing)

Answer Question No.6 and *any three* from Question Nos. 7, 8, 9 and 10.

6. (a) Choose the correct answer from the four alternatives given: 1×6=6

(i) Internal Audit is mandatory for every unlisted public company having paid up share capital of ________ during the preceding financial year.

(A) ₹ 100 crores

(B) ₹ 50 crores

(C) ₹ 500 crores

(D) ₹ 200 crores

(ii) A cost auditor submits his report along with the reservations and observations in Form No. ________.

(A) CRA 1

(B) CRA 2

(C) CRA 3

(D) CRA 4

(iii) Any casual vacancy in a government company is filled by the CAG of India within ________ days.

(A) 15

(B) 30

(C) 45

(D) 60

(iv) Audit Procedures to obtain audit evidences include ________.

(A) Compliance Procedure

(B) Substantive Procedure

(C) Both of (A) and (B)

(D) Neither (A) nor (B)

(v) 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

(vi) 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

(b) **State whether the following statements are True or False:** 1×4=4

(i) Casual vacancy in the office of Cost Auditor is filled by Board of Directors.

(ii) Application for removal of a Company Auditor before the expiry of his term is to be made to the Central Government in Form No. ADT– 1.

(iii) An Audit engagement is the initial stage of an audit during which the auditor notifies the client that he has accepted the audit work.

(iv) Analytical procedure includes trend analysis.

(c) **Fill in the blanks:** 1×4=4

(i) Cost Records are to be maintained as per Form _________.

(ii) The auditor of a banking company is to be appointed by the _________.

(iii) 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.

(iv) Cut off procedures are generally applied to _________ transactions.

7. (a) List the principles governing an audit. 6

(b) What are analytical procedures of Audit? Discuss the tools and techniques of analytical procedures. 6

8. (a) Discuss the manner in which rotation of auditors may be done by the company on expiry of their term. 6

(b) V. Limited is an unlisted company with an Authorised Capital of ₹ 100 crore. The issued and paid-up capital of the company is ₹ 45 crore. During the financial year 2022-23, the company has been able to achieve a turnover of ₹ 225 crore. The company has taken a Bank loan of ₹ 110 crore in the current financial year for business expansion. As the Company Secretary of V. Limited give your opinion/ advice, as a legal expert, on whether the company is required to conduct a secretarial audit. 6

9. (a) Discuss the duties of an Auditor in relation to the audit of debentures. 8

(b) State the circumstances that may lead to submission of a report other than an Unqualified Report by an auditor. 4

10. (a) How will you conduct the audit of a hospital? 4

(b) B Mart Ltd. is a multi-brand retailer and operates in multiple locations across the nation. It sells products of thousands of categories from food to consumer durables. Each individual product item has a price tag with barcode. In addition, there is another security tag which is removed only after the billing is done. Inventory records are physically verified on a fortnightly basis by the auditor of B Mart. Identify the risks associated with the audit of inventory in B Mart. 8

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SUGGESTED ANSWERS TO QUESTIONS

SECTION-A

1. (a)

(i) (A)
(ii) (A)
(iii) (D)
(iv) (D)
(v) (B)
(vi) (A)

1. (b)

(i) False
(ii) False
(iii) True
(iv) True

1. (c)

(i) Premium
(ii) Inventories
(iii) Present
(iv) Reversionary Bonus

2. (a)

Particulars	A	B	C	D
Net Liabilities	0	11,250	0	13,750

2. (b)

Journal of N. Limited:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being raising of funds through issue of equity shares)		1,32,000	 1,20,000 12,000
2	Bank A/c Dr. Profit and Loss A/c Dr. To Investment A/c (Being Sale of Investment at a loss)		1,08,000 12,000	 1,20,000
3	14% Preference Share Capital A/c Dr. Premium on Redemption A/c Dr. To Preference Shareholders A/c (Being Redemption of Pref. shares at premium)		2,50,000 20,000	 2,70,000
4	Securities Premium A/c Dr. To Premium on Redemption A/c (Being Premium on redemption met out of Security Premium)		20,000	 20,000
5	General Reserve A/c Dr. Profit and Loss A/c Dr. To Capital Redemption Reserve A/c (Being amount transferred to CRR A/c)		75,000 55,000	 1,30,000

6	Preference Shareholders A/c Dr. To Bank A/c (Being Redemption amount paid to Preference Shareholders)		2,70,000	2,70,000

3. (a)

Cash Flow Statement for the year ended 31st March, 2023:

Particulars	**Rs.**
A. Cash Flow from Operating Activities:	1,80,000
B: Cash Flow from Investing Activities:	4,40,000
C: Cash Flow from Financing Activities:	(2,25,000)
Cash Flow during the year (A+ B+C)	3,95,000
Add: Opening Balance of Cash & Cash Equivalents	1,00,000
Closing balance of Cash & Cash Equivalents	4,95,000

3. (b)

Income to be Recognised ₹ 2,114 (Rs. in Crore)

4.

Balance Sheet Total ₹ 94,78,500

5. (a)

Actual return on plan assets ₹ 95,000

5. (b)

(i) In the Books of Prakash Life Insurance Co. Ltd.

Valuation Balance Sheet as on 31st March, 2023

Liabilities	**₹**	**Assets**	**₹**
Net Liability	28,80,000	Life Assurance Fund	34,00,000
Net Profit	5,20,000		
	34,00,000		34,00,000

(ii) & (iii)

	₹
Net Profit for the Two Years Period	5,60,000
Distribution of the Profits:	
Net Profit	5,60,000
Less: Amount proposed to be carried forward	1,10,000
Balance	4,50,000
Share of policyholders	4,27,500
Less: Interim bonus paid	40,000
Amount due to policy holders	3,87,500
Share of Shareholders	22,500

SECTION B

6. (a)

(i) (B)
(ii) (C)
(iii) (B)
(iv) (C)
(v) (C)
(vi) (B)

6. (b)

(i) True
(ii) False
(iii) True
(iv) True

6. (c)

(i) CRA-1
(ii) shareholders
(iii) 25%
(iv) trading

7. (a)

The basic principles governing an Audit are stated below:

(i) Integrity, Objectivity and Independence: The auditor has to be straightforward, fair, impartial, honest and sincere in his approach to professional work.

(ii) Confidentiality: The auditor should uphold the privacy of the information and should not disclose any such information to a third party, including the employees of the entity, without the explicit authority of the management or client or unless there is a lawful or a professional responsibility to do so.

(iii) Professional Care, Skill and Competence: The auditor should exercise due professional care, competence and diligence expected of him while carrying out the audit work.

(iv) Responsibility of Work Performed by Others: The auditor should carefully direct, oversee and review the work delegated to staff. Likewise, the auditor may also use the work done by other auditors or experts.

(v) Documentation: The auditor should document matters, which are essential in providing evidence that the audit was carried out in accordance with the standards.

(vi) Planning: The auditor should plan his work in such a way as to enable him to conduct an audit in a timely and efficient manner. The audit plan should be based on the knowledge of the business of the entity. The plan should be continuously reviewed and modifications should be incorporated if required.

(vii) Audit Evidence: The auditor should get hold of enough suitable evidence to enable him to draw reasonable conclusions there from.

(viii) Accounting System and Internal Control: The auditor should have an understanding of the internal control and risk management framework established by the management. He has to judge the adequacy of such framework as well.

(ix) Audit Conclusions and Audit Report: The auditor should review and measure the conclusions drawn from the audit evidence obtained, as the basis for his findings contained in his report. Nevertheless, in case the auditor comes across any actual or suspected fraud, it would be more apt for him to bring the same instantaneously to the notice of the management

7. (b)

According to SA-520, Analytical Procedure means evaluation of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedure also encompasses such investigation, as is necessary, of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Tools and Techniques of Analytical Procedures

As per SA-520, analytical procedures include application of the following tools and techniques:

a. Trend Analysis: Under this method, analysis is done for to assess fluctuation of the amount of any item over the year or years.

b. Testing of Reasonableness: This is done by comparing certain items or account balances with other accounts or balances. Some examples are as follows;

(i) Raw material consumption to production (quantity)

(ii) Percentage of wastage and scrap against production and raw material consumption

(iii) Work-in-progress based on material issued

c. Ratio Analysis: This technique calculates different ratios between various items of financial statements in order to study their relationships. Some common ratios include:

(i) Gross Profit Ratio

(ii) Receivable Turnover Ratio

(iii) Inventory Turnover Ratio

d. Sources of Information: Analytical procedures also require analysing the following sources of information.

(i) Interim financial information

(ii) Budgets

(iii) Management Accounts

(iv) Non-financial information, etc.

8. (a)

Manner of rotation of Auditors by the Companies on Expiry of Their Term As per Section 139(4), the Central Government may, by rules, prescribe the manner in which the companies shall rotate their auditors in pursuance of Section 139(2). Accordingly, the Central Government has prescribed the following provisions under Rule 6 of the Company (Audit and Auditor) Rules 2014.

i. Where a company is required to constitute an Audit Committee u/s 177 of the Act, the Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm whomayre place the incumbent auditor on expiry of the term of such incumbent.

ii. Where a company is not required to constitute an Audit Committee u/s 177 of the Act, the Board shall consider the matter of rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.

For the purpose of the rotation of auditors–

(i) The period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken in to account for calculating the period of five consecutive years or ten consecutive years, as the case may be;

(ii) The incoming auditor or audit firm shall not be eligible if such auditor or audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

The term "same network" shall include the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

For the purpose of rotation,

(i) A break in the term for a continuous period of five years shall be considered as fulfilling the requirement of rotation;

(ii) If a partner, who is in-charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.

8. (b)

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:

Every listed company;

Every public company having a paid-up share capital of 50 crore rupees or more; or

Every public company having a turnover of 250crore rupees or more; or

Every company having outstanding loans or borrowings from banks or public financial institutions of Rs.100 crore rupees or more.

In the given case, the company is an unlisted public company with paid up capital of Rs. 45 crore (less than Rs. 50 crore) and its turnover of Rs. 225 crore is also lower than the threshold of Rs. 250 crore. However, the company has an outstanding bank loan of Rs.110 crore which is higher than the threshold of Rs. 100 crore. Thus, the company will need to conduct secretarial audit.

9. (a)

The duties of an auditor in relation to the audit of debentures are discussed below:

(i) The auditor should verify that the prospectus had been duly filed with the registrar before the date of allotment of debentures.

(ii) He should check the amount collected in the cash book with the counterfoils of receipts issued to the applicants and also cross check the amount into the application and allotment book.

(iii) He should examine the debenture trust deed and note the conditions contained therein as to issue and repayment.

(iv) If the debentures are covered by a mortgage of a charge, it should be verified that the charge has been correctly recorded in the register of mortgage and charges and it has also been registered with the registrar of the companies.

(v) Compliance with SEBI guidelines should also be ensured.

(vi) Where debentures have been issued as fully paid up to vendors as a part of the purchase consideration, the contract in this regard should be checked

9. (b)

An Auditor may not be able to express an Unqualified Opinion when any of the following circumstances exist and in the auditor's judgement, the effect of the matter is or may be material to the Financial Statements.

[SA 700].

i. Limitation on Scope: Limitation on scope of Auditor's work may be imposed by the clients or imposed by circumstances. It may lead to situations where the Auditor may have to issue a Qualified Opinion or a Disclaimer of Opinion.

ii. Disagreement with management: The Auditor may disagree with the Management as to

(a) The acceptability of the accounting policies selected, or the method of their application,

(b) The adequacy of disclosure in the Financial Statements, or (c) the compliance of the Financial Statements with relevant regulations and statutory requirements. In such cases, he may have to give an Adverse Opinion or a Qualified Opinion.

iii. Significant Uncertainty: If there is a significant uncertainty affecting the Financial Statements (other than Going Concern problem), for example, litigation involving legal claims, etc. the result of which is dependent upon the resolution of the future events, the Auditor may have to quality his opinion or disclaim an opinion.

However, where such significant uncertainty is not material, the Auditor may issue an Unqualified Opinion, by adding an “Emphasis of Matter” paragraph, without qualifying his opinion.

10. (a)

(i) Check the letter of appointment to ascertain the scope of responsibilities.

(ii) Study the Charter or Trust Deed under which the hospital has been set up and take a special note of the provisions affecting the accounts.

(iii) Examine, evaluate and verify the system of internal check, internal control and determine the nature, timing and the extent of the audit procedures.

(iv) Vouch the entries in the Patient’s Bill Register with a copies of bill issued. Test check the selected bills to see that these have been correctly prepared taking into consideration the period of stay of each patient as recorded in the Attendance Schedule.

(v) Vouch the collection from patients with copies of bills and entries in Bills Register. Arrears of dues should be properly carried forward and where these are deemed to be irrecoverable, they should be written off under due authorizations.

(vi) Interest and/ or dividend income should be vouched with reference to the Investment Register and Interest and Dividend warrants.

(vii) In case of legacies and donations which are received for specific purposes, it should be ensured that any income there from is not utilized for any other purposes.

(viii) Where receipts of subscription show a significant deviation from budgeted figures, it should be thoroughly inquired into and the matter be brought to the notice of the trustees or the Managing Committee.

(ix) Government grants or grants from local bodies should be verifies with the reference to the correspondence with the concerned authorities.

(x) Clear distinction should be made between the items of capital and revenue nature.

(xi) The capital expenditure should be incurred under proper authorization by a valid resolution of the trustees or the Managing Committee.

(xii) Verify the system of internal check as regards purchases and issue of stores, medicines etc.

(xiii) Examine that the appointment of the staff, payment of salaries etc. are duly authorized.

(xiv) Physically verify the investments, fixed assets and inventories.

(xv) Check that adequate depreciation has been provided on all the depreciable assets.

10. (b)

The auditor may perceive the following risks:

i. Inherent Risk: It is possible that the employees might have misappropriated the inventory by manipulating the inventory records. So, inventory records may not be accurate. This leads to a risk of material misstatement.

ii. Control Risk: Here each item of inventory carries a price tag with bar code as well as a security code (which is removed only after the billing). Additionally, physical verification of inventory is done on a fortnightly basis. Thus, the internal control appears to be quite satisfactory. However, collusion among employees at multiple layers can evade the control implemented at any time. Hence, an element of control risk is present.

iii. Detection Risk: It is expected that the auditor will apply appropriate procedures to judge the efficiency of the control system before deciding on the extent of test checking. However, there may still be possibilities of material misstatements and the same may not be detected due to adoption of test checking. Hence, an element of detection risk can also exist.