PAPER – 10 : CORPORATE ACCOUNTING AND AUDITING

SUGGESTED ANSWERS

SECTION – A

1.

(i) (A)

(ii) (A)

(iii) (B)

(iv) (D)

(v) (D)

(vi) (D)

(vii) (C)

(viii) (B)

(ix) (D)

(x) (D)

(xi) (D)

(xii) (D)

(xiii) (B)

(xiv) (D)

(xv) (C)

SECTION – B

2. (a)

(i) Theoretical market price of one share = ₹ 35.57

(ii) Value of Rights = ₹ 9.43

(iii) % increase in share capital = 40%

2. (b)

Liability of the underwriters (No. of shares)

Particulars	A	B	C	D
Share of gross liability	30%	30%	20%	20%
Gross Liability	60,000	60,000	40,000	40,000
Net Liability	7,000	25,000	Nil	14,000
Add: Firm Underwriting	6,000	4,000	2,000	2,000
Total Liability	13,000	29,000	2,000	16,000

3.

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

Particulars	31.03.2024
Revenue from operations (Sales + Discount Received)	13,72,000
Other income	Nil
Total revenue	13,72,000
Expenses: Purchases of stock-in-trade	9,40,000
Changes in inventories of stock-in-trade	(52,000)
Employee benefits expense	1,53,600
Depreciation and amortization expenses	25,160
Other expenses	53,240
Total expenses	11,20,000
Profit before tax	2,52,000
Less: Provision for taxation @ 30%	75,600
Profit after tax	1,76,400

Star Ltd.

Balance Sheet as on 31st March, 2024

Particulars	As on 31.03.2024
EQUITY AND LIABILITIES	
Shareholders' funds:	
(a) Share capital	4,00,000
(b) Reserves and surplus	2,62,400
Non-current liabilities	Nil
Current liabilities:	
(a) Trade payables	98,000
(b) Other current liabilities	6,800
(c) Short-term provisions (Provision for tax)	75,600
Total	8,42,800
ASSETS	
Non-current assets:	
(a) PPE	1,59,800
(b) Intangible assets	18,240
Current assets:	
(a) Inventories	3,52,000
(b) Trade receivables	1,27,960
(c) Cash and cash equivalents	1,84,800
Total	8,42,800

4. (a)

(i) Rebate on bills discounted

(Amount of discount has been rounded off for different bills)

Amount	Discount Amount
36,000	805
34,200	843
14,000	422
14,000	759
12,500	703
11,000	802
1,21,700	4,334

In the books of Bank

Journal Entries

			Dr.	Cr.
(i)	Rebate on bills discounted Account	Dr.	65,500	
	To Discount on bills Account			65,500
(ii)	Discount on bills Account	Dr.	4,334	
	To Rebate on bills discounted Account			4,334
(iii)	Discount on bills Account	Dr.	1,86,166	
	To Profit and loss Account			1,86,166

(ii) Amount credited to Profit and Loss A/c will be = ₹ 1,86,166

4. (b)

Form B – RA

Name of the Insurer: Jwala Fire Insurance Ltd.

Revenue Account for the year ended 31st March, 2024

Sr. No.	Particulars	Amount (₹)
1	Premium earned	11,75,000
2	Other income	----------
3	Interest, dividend and rent	-----------
	Total	11,75,000
4	Claims incurred	5,40,000
5	Commission	3,00,000
6	Operating expenses related to insurance business	2,00,000
	Total	10,40,000
	Operating Profit	1,35,000

5. (a)

Basic EPS for 2022-23 = ₹ 1.50

Basic EPS for 2023-24 = ₹ 1.88

Restated EPS for 2022-23 = ₹ 1.46

5. (b)

Cash Flow Statement
For the year ended on 31.03.2024

Particulars	₹	₹
Cash Flow from Operating Activities		
Cash Sales		3,00,000
Collection from Trade Receivables		3,20,000
Trade Commission received		80,000
	2,60,000	7,00,000
Less: Cash purchase	2,88,000	
Less: Payment to Trade Payables	1,00,000	
Less: Payment of Rent	50,000	
Less: Payment of administration expenses		6,98,000
Cash Generated from Operations		2,000
Less: Payment of Income Tax		60,000
		(58,000)
Cash Flow from Investing Activities		
Sale of investment	1,60,000	
Interest and dividend received	4,000	
Purchase of investment	(1,80,000)	(16,000)
Cash Flow from Financing Activities	3,00,000	
Bank loan raised	(2,00,000)	
Repayment of loan	(14,000)	
Interest on bank loan		86,000
		12,000
		2,50,000
Add: Opening Cash Balance		2,62,000
Closing Cash Balance		

6. (a)

Contents of Audit Working Papers:

As per SA-230, 'Audit Documentation', an auditor should follow the guidelines mentioned below to decide on the form, content and extent of audit documentation (or working papers).

(i) The auditor shall prepare audit working papers on a timely basis. They should be prepared while performing the task itself rather than after the audit work is performed.

(ii) The auditor shall prepare audit working papers that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

(a) the nature, timing and extent of audit procedures performed to comply with the SAs and applicable legal and regulatory requirements;

(b) the results of the audit procedures performed and the audit evidence obtained; and

(c) Significant matters arising during the audit, the conclusion reached thereon and significant professional judgements made in reaching those conclusions.

(iii) In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

(a) the identifying characteristics of the specific items or matters tested;

(b) who performed the audit work and the date such work was performed; and

(c) who reviewed the audit work performed and the date and extent of such review.

(iv) The auditor shall document discussions of significant matters with management, those charged with governance and other, including the nature of the significant matters discussed and when and with whom the discussions took place.

(v) If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.

(vi) If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in a SA, the auditor shall document how the alternative audit procedures performed achieved the aim of that requirement, and the reasons for the departure.

6. (b)

Power of Audit Committee

(a) Committee may ask for Auditor's Comment: The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, the observations of the auditors and review of financial statement before their submission to the Board. The Committee may also discuss any related issues with the internal and statutory auditors and the management of the company. [Section 177(5)]

(b) Investigation: The Audit Committee shall have authority to investigate into any matter in relation to the items specified in Section 177(4) or referred to it by the Board. For this purpose, the Committee shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company. [Section 177(6)]

(c) Board's Report and Audit Committee: The Board's report under sub-section (3) of section 134 shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor. [Section 177(8)]

(d) Whistle Blowing Policy: Every listed company and company accepting public deposits or borrowing in excess of fifty crore rupees from banks and financial institutions shall establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed. [Section 177(9)]

(e) Safeguards against Victimization: The vigil mechanism under sub-section (9) shall provide for adequate safeguards against victimization of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases. The company shall disclose establishment of such mechanism on its website, if any, and in the Board's report. [Section 177(10)]

7. (a)

Inventories/Stock in Trade

Inventory includes raw materials, loose tools, spare parts, semi-finished goods or work-in- progress, packing materials as well as finished goods ready for sale. Even for some organisations, it includes stock at branch (in case of branch accounting), stock with customers (in case of hire purchase accounting), stock with consignee (in consignment arrangement), stock with customer on sale or approval (in case of sales on approval).

The responsibility for properly determining the quantity and value of inventories rests with the management of the entity. The management satisfies this responsibility by carrying out appropriate procedures which include verification of all items of inventory at least once in every financial year. This responsibility is not reduced even where the auditor attends any physical count of inventories in order to obtain the audit evidence. However, mere presence at the time of physical stock count does not relieve the auditor from his duty, rather the auditor is required to follow a detailed procedure to verify the inventories.

Audit Procedure to be followed

(a) Existence

(i) The auditor should review the client's plan to verify inventory physically. He shall see that the process is properly supervised. He must ensure that all stock count sheets are signed by a responsible official of the client.

(ii) Where the client follows periodic system stock count should be done at the end of the period. On the other hand, where the client follows perpetual system, stock count should be done at interim dates.

(iii) The auditor must satisfy himself about any inventory lying at public warehouses or with third party.

(b) Rights and Obligations

(i) The auditor shall also vouch recorded purchases to underlying documentation such as purchase invoice, purchase order, Goods Received Notes etc. to determine that client is the owner of such goods.

(ii) He shall evaluate consignment agreement and any collateral agreement and examine the terms and conditions binding on the client.

(iii) He shall also obtain confirmation from the third parties for inventories lying with them.

(c) Cut-off

The auditor shall see that the value of investments shown in the Balance Sheet comprises all investments existed and under the ownership of the company on the reporting date.

(d) Completeness

(i) The auditor should perform analytical procedure to identify any abnormality.

(ii) He should collect non-financial information such as weights and measures and check the same with physical verification reports.

(iii) He shall also perform purchase and sale cut-off test to identify misappropriation near the year end. He shall also ensure that no item is omitted from inventories and no invalid item is included in inventories. For this purpose, information of all stock lying with customers (under hire purchase system or sale on approval system), at branch and with consignee must be procured and verified.

(iv) He shall reconcile physical inventory amounts with perpetual records including stores ledger. The value of the inventory should also be tallied with the amount recorded in the books as adjustment entry of closing stock.

(e) Valuation

(i) The auditor must determine the appropriateness of the method of issuing inventory (LIFO, FIFO, Weighted Average, etc.) for valuation purpose.

(ii) Value of raw materials must be examined based on the cost of purchase, carriage inwards, duties paid, market price of raw materials and estimated cost of disposal. The auditor shall see that lower of cost and NRV has been considered as the value. Relevant documents for this purpose would be purchase invoice, voucher for transport cost, etc.

(iii) He shall also ensure that work-in-progress has been valued considering the completed stage of production and all direct and relevant indirect costs (up to works cost).

(iv) He shall ensure that cost of finished goods includes all direct and relevant indirect costs. In case the finished goods are expected to fetch value lower than the cost, the auditor shall see that the same is valued at NRV.

(v) He shall also see that damaged goods are valued at net realisable value. Moreover, he shall ensure that all obsolete goods have been written off fully.

(f) Presentation and Disclosure

(i) In case of companies, as per Part I of Schedule III of the Companies Act, 2013 all items of inventories shall be included in the head 'Current Assets' under the subhead 'Inventories'.

(ii) Additionally, in notes to accounts the following disclosures shall be made.

- Inventories shall be classified as – (a) Raw materials (b) Work-in-progress (c) Finished goods (d) Stock in trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose goods (g) Others (specify nature).
- Goods-in-transit shall be disclosed under the relevant sub-head of inventories.
- Mode of valuation shall be stated.

7. (b)

Reporting on Internal Financial Control over Financial Reporting – Auditor's Responsibility

Sec 143(3) (i) of Companies Act, 2013 requires that the report of the auditor should state as to whether the company has adequate Internal Financial Control system in place and the operating effectiveness of such controls.

Further, Rule 10A of Companies (Audit & Auditors) Rules 2014 states that:

a) For the financial years commencing on or after 1st April 2015, the report of the auditor should state about existence of adequate Internal financial controls and its operating effectiveness.

b) The auditor of a company may voluntarily include the statement referred to in this rule for the financial year commencing on or after 1st April 2014 and ending on or before 31st March 2015.

As per the Guidance Note issued by The Institute of Chartered Accountants of India in this respect:

- The auditor's objective in an audit of internal financial controls over financial reporting is to express an opinion on the effectiveness of the company's internal financial controls over financial reporting and the procedures in respect thereof are carried out along with an audit of the financial statements.

- Globally, auditor's reporting on internal controls is together with the reporting on the financial statements and such internal controls reported upon relate to only internal controls over financial reporting.

  Accordingly, the term 'internal financial controls' wherever used in this Guidance Note in the context of the responsibility of the auditor for reporting on such controls under Section 143(3)(i) of the Act, per se implies and relates to internal financial controls over financial reporting.

  Therefore, 'internal financial controls over financial reporting' shall mean 'A process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and

(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

An auditor needs to conduct an audit of IFC-FR though a proper planning followed by testing the design effectiveness of control and operating effectiveness of control and thereafter report on IFC over Financial Reporting.

The Guidance Note also provides that reporting on the adequacy and operating effectiveness of IFC-FR would apply even in case of consolidated financial statements, for the respective components included in the consolidated financial statements only if it is a company under the 2013 Act. However, reporting on IFC will not be applicable with respect to interim financial statements, such as quarterly or half-yearly financial statements, unless such reporting is required under any other law or regulation.

8. (a)

The following is the list of important items to be checked in conducting the audit of Deluxe Hotels:

(i) Vouch the collections from boarders based on their check-in and check-out information recorded in the register, counterfoils of bills and cash book.

(ii) Verify the room rent receipts and daily occupancy reports. Ask for proper clarification for differential rent charged from any boarder. Be careful while verifying the adjustment of unrealised room rent, cancellation charges of booking accommodation at the time of closing of accounts.

(iii) Vouch collections on account of special events such as conferences, wedding ceremony etc. separately based on counterfoil of receipts and cash book.

(iv) Income from bar, casino, health centre, etc. associated with the hotel should be vouched based on counterfoils of bills and cash book. Vouch the rent from shops situated in the premises of the hotel, if any.

(v) Vouch transactions relating to purchase of food materials, drinks and other materials. Check whether the payments have been made based on purchase orders or contracts, invoice, etc.

(vi) Verify the salary paid to permanent staff based on their payroll. Salary paid to casual and contractual employees should be verified based on documentary evidences like authorisation by management.

(vii) All overhead expenses including electricity bills, telephone and broadband bills, taxes to local authorities, etc. should be vouched based on the respective bills.

(viii) Carefully examine the valuation of stock. If possible, remain physically present at the time of stock taking.

(ix) Conduct physical verification of fixed assets and investments based on Fixed Asset Register and Investment Register respectively. Check the adequacy of depreciation and its proper accounting.

(x) Collect the list of all liabilities and verify them based on the contracts and arrear bills.

8. (b)

The benefits of joint audit are as follows:

i) Joint audit reduces the workload of a single auditor.

ii) Since different auditors may be engaged to handle different parts of accounts, timely completion of work is possible even in a large organisation.

iii) The auditors may share their expertise and solve critical problems in the process.

iv) Joint audit improves the quality of audit work to a great extent.

v) There may be healthy competition among the auditors which improves the quality and speed of the audit work.

vi) Under joint audit, it is possible to get the benefit of extensive knowledge of different auditors at the same time.

The limitations of joint audit are enumerated below:

i) Established auditors may have a superiority complex over the less experienced one.

ii) It is not suitable for a small entity due to substantial cost burden.

iii) At times, lack of coordination among the auditors may slow down the speed of work.

iv) There may be uncertainty about the liability of any work.

v) Areas of common concern may be neglected.

vi) The auditors have to share the fees.