PAPER - 10 : CORPORATE ACCOUNTING AND AUDITING

SUGGESTED ANSWERS

SECTION - A

1.

(i) (C)

(ii) (B)

(iii) (C)

(iv) (D)

(v) (A)

(vi) (B)

(vii) (D)

(viii) (C)

(ix) (D)

(x) (A)

(xi) (A)

(xii) (C)

(xiii) (D)

(xiv) (B / C)

(xv) (D)

SECTION - B

2. (a)

Journal Entries

	Particulars		Debit(₹)	Credit(₹)
1	Equity Share Capital A/c	Dr.	10,000	
	Securities Premium A/c	Dr.	3,000	
	To Equity Share Allotment A/c			5,000
	To Equity Share Final Call A/c			5,000
	To Forfeited Shares A/c			3,000
	(Being the forfeiture of 1000 equity shares of ₹10 each at a premium of ₹ 3 per share fully called up for non payment of allotment and final Call money as per Board resolution)			
	OR			
	Equity Share Capital A/c	Dr.	10,000	
	Securities Premium A/c	Dr.	3,000	
	To Calls in Arrears A/c			10,000
	To Forfeited Shares A/c			3,000
	(Being the forfeiture of 1000 equity shares of ₹10 each at a premium of ₹ 3 per share fully called up for non payment of allotment and final Call money as per Board resolution)			
	Bank A/c	Dr.	5,400	
	Forfeited Shares A/c	Dr.	600	
	To Equity Share Capital A/c			6,000
	(Being reissue of 600 Equity Shares @ ₹ 9 per share fully paid)			

	Forfeited Shares A/c To Capita Reserve A/c (Being amount transferred to Capital Reserve)	Dr.	1,200	 1,200

Working Note: Amount transferred to Capital Reserve= (Amount forfeited on reissued 600 shares- Discount on reissue of such shares)= (3000x600/1000)-600= ₹ 1,200.

2. (b)

Calculation of Liability of the Underwriters (No. of shares)

Particulars	X	Y	Z
Gross Liability	12,000	5,000	3,000
Less: Marked Applications	2,000	4,000	1,000
	10,000	1,000	2,000
Less: Unmarked Applications	4,320	1,800	1,080
	5,680	(800)	920
Surplus of Y apportioned between X & Z in the ratio of Gross Liability (12:3 or 4:1)	(640)	800	(160)
Net Liability under contract	5,040	Nil	760
Add: Firm Underwriting	1,600	600	2,000
Net Liability	6,640	600	2,760

Working:

(1) Allocation of unmarked applications

Total Applications (including marked and firm underwriting) = 14,200

Marked applications = 2000 + 4000 + 1000 = 7,000

Unmarked applications including firm underwriting = 14,200 – 7,000 = 7,200 to be shared in Gross Liability i.e., 12000:5000:3000 = 12:5:3.

3.

Balance Sheet of ABC Ltd as on 31.03.2026

Particulars	Note no.	Amount (₹ 000.)
Equity and liabilities		
Shareholders' Funds		
Share Capital	1	12,000
Reserve and Surplus	2	21,200
Non-Current Liabilities		
Long-term Borrowings (10% Debenture)		8,000
Current Liabilities:		
Trade Payables		2,080
Total		43,280

Assets		
Non-Current Assets:		
Property, Plant and Equipment and Intangible Assets		
PPE	3	35,200
Current Assets		
Inventories		3,440
Trade Receivable		3,840
Cash & Cash equivalent		800
Total		43,280

Statement of Profit and Loss for the year ended on 31.03.2026

Particulars	**Note no.**	**Amount (₹000)**
I. Revenue from operation (Sales)		28,000
II. Other income	5	80
III. Total Income		28,080
IV. Expenses:		
Purchases of Stock in trade (12800 + 3440 – 3000)		13,240
Changes in inventory (3,000 – 3,440)		(440)
Employee Benefit expenses		2,400
Finance Cost		800
Depreciation & Amortization Expenses	4	3,040
Other expenses	6	2,400
Total		21,440
V. Profit before exceptional and extraordinary items and tax year (III – IV)		6,640
VI. Exceptional items		Nil
VII. Profit before extraordinary items and tax		6,640
VIII. Extraordinary item		Nil
IX. Profit before tax		6,640
X. Tax Expense:		Nil
XI. Profit / (Loss) for the period (IX-X)		6,640

Notes to Accounts:

Note 1: Share Capital:

Particulars	**(₹'000)**
Authorized Capital: 16,00,000 shares of ₹10 each Issued and Subscribed & Paid up: 12,00,000 Equity shares of ₹10 each	 16,000 12,000
Total	12,000

Note 2: Reserve and Surplus:

Particulars	(₹'000)	(₹'000)
P/L Balance (opening)	2,880	
Add: Profit during the year	6,640	
	9,520	
Less: Interim Dividend	720	
P/L Balance (closing)		8,800
General Reserve		5,200
Securities Premium		1,600
Revaluation Reserve (14400 – 8800)		5,600
		21,200

Note 3: PPE and Intangible Assets

Particulars	(₹'000)	(₹'000)
Land at cost		8,800
Add: Revaluation adjustment		5,600
A.		14,400
Plant and Machinery at cost	30,800	
Less: Cost of Plant and Machinery sold	400	
	30,400	
Less: Acc. Depreciation (Note 4)	(9,600)	
B.		20,800
Total PPE		35,200

Note 4: Provision for depreciation:

Particulars	(₹'000)
Provision for dep. (op.)	6,880
Less: Provision for dep. on P/M sold	320
Add: Provision during the year (30800 – 400) x 10%	3,040
	9,600

Note 5: Other income:

Particulars	(₹'000)
Profit on sale of machinery	
Sale value	160
Less: WDV (400 – 320)	80
	80

Note 6: Other Expenses:

Particulars	(₹'000)
Administration Expenses	1,200
Selling Expenses	1,200
	2,400

Note 7: Contingent Liability for Proposed Dividend:

Particulars	(₹'000)
Proposed Dividend @ 10% (12000 x 10%)	1,200

4. (a)

1. Calculation for rebate on bills discounted.

Due Date	Days after 31.03.2025	Amount of Bill (₹)	Rate of Discount	Rebate (₹)
	(1)	(2)	(3)	(4) = (2)x(3)x(1)/365
14.06.2025	30+31+14 = 75	65,000	13% p.a.	1,736
19.07.2025	30+31+30+19 = 110	1,50,000	15% p.a.	6,781
10.08.2025	30+31+30+31+10 = 132	4,00,000	14% p.a.	20,252
				28,769

2. Calculation for amount to be credited to Profit & Loss A/c

Particulars	Amount (₹)
Discount earned during the year	1,02,000
Add: Rebate as on 01.04.2024	28,000
Less: Rebate as on 31.03.2025	(28,769)
Discount income to be credited to Profit & Loss A/c	1,01,231

In the books of ……..

Journal

Date	Particulars	Dr.(₹)	Cr.(₹)
31.03.25	Interest and Discount A/c……………………. Dr.	28,769	
	To Rebate on Bills Discounted A/c		28,769

4. (b)

Statement showing Life Assurance Fund

Particulars	(₹)	(₹)	(₹)
Balance of Fund as on 31st March, 2025			31,10,655
Add:			
Interest on securities		4,130	
Premium outstanding		2,705	6,835
			31,17,490
Less:			
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			31,07,990

5. (a)

Under Ind AS 19, there are four types of employee benefits as recognized, are as under;

(a) short-term employee benefits, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services

(i) wages, salaries and social security contributions,

(ii) paid annual leave and paid sick leave,

(iii) profit-sharing and bonuses, and

(iv) non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees.

(b) post-employment benefits, such as the following

(i) retirement benefits (e.g., pensions and lump sum payments on retirement), and

(ii) other post-employment benefits, such as post-employment life insurance and post-employment medical care.

(c) Other long-term employee benefits, such as the following

(i) long-term paid absences such as long-service leave or sabbatical leave,

(ii) jubilee or other long-service benefits, and

(iii) long-term disability benefits, and

(d) Termination benefits including voluntary retirement benefits (VRS).

Note: Employee benefits include benefits provided either to employees or to their dependent or beneficiaries and may be settled by payments (or the provision of goods or services) made either directly to the employees, to their spouses, children or other dependent or to others, such as insurance companies.

Note: An employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, employees include directors and other management personnel.

5. (b)

Cash flow statement from Operations is as under(Direct Method);

Particulars	**Amount (₹)**	
Source of Cash:		
Cash Sales (50% of ₹ 1,75,700)	87,850	
Collection from Debtors	92,150	
Total cash from operations		1,80,000
Application of cash:		
Payment to suppliers	87,700	
Salaries expenses	39,100	
Research and development	1,800	
Total operating cash payment		1,28,600
Net cash Inflow from Operating Activities(Operations)		51,400

Working Notes:

1) Collection from debtors:

Credit sales (50% x ₹1,75,700)	₹. 87,850
Less : Bad debts (₹ 3,750 less ₹ 1,700)	₹. (2,050)
Add : Decrease in accounts receivables	₹ 6,350
Collection from debtors on credit sales	₹ 92,150

2) Payment to suppliers:

Cost of goods sold	₹ 92,400
Add : Increase in inventory	₹2,600
Less : Increase in accounts payable	₹(7,300)
Payment to suppliers	₹ 87,700

3) Calculation of Salaries payment:

Salary expenses	₹ 36,300
Add : decrease in salary payable	₹ 2,800
Payment of salaries	₹ 39,100

Alternative Presentation:

Cash flow statement from Operations is as under (Indirect Method);

Calculation of Cash Flow from Operating Activities

Particulars	₹
Net Profit before Working Capital Changes	43,150
Add: Decrease in Accounts Receivable	6,350
Add: Increase in Accounts Payable	7,300
Less: Increase in Inventory	(2,600)
Less: Decrease in Salary Payable	(2,800)
Net Cash Inflow from Operating Activities(Operations)	51,400

Calculation of Net Profit before Working Capital Changes

Particulars	₹
Sales	1,75,700
Less: Cost of Goods Sold	(92,400)
Gross Profit	83,300
Less: Salary Expense	(36,300)
Less: Research & Development Expense	(1,800)
Less: Bad Debts Expense	(2,050)
Net Profit before Working Capital Changes	43,150

(Here, bad debt expense = Closing Provision ₹3,750 − Opening Provision ₹1,700 = ₹2,050)

6. (a)

In recent times, many corporate failures may be attributed to poor risk management approaches followed by the management. Effective internal controls, however, contribute to a great extent in minimising the adverse impact of inherent business risks.

Institute of Internal Auditors (IIA) defines risk based internal auditing (RBIA) as a methodology that links internal auditing to an organisation's overall risk management framework. RBIA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.

Thus, while traditional internal audit only provides control assurance based on routine audit, RBIA provides Assurance on the effectiveness of risk management in addition to control assurance. To put it differently, RBIAs give auditors a larger role in your risk reduction program. Beyond simply diagnosing the problems, they are also a part of the creation of effective controls and maintaining risk management efforts over time.

By following RBIA internal audit should be able to conclude that:

a) Management has identified, assessed and responded to risks above and below the risk appetite.
b) The responses to risks are effective but not excessive in managing inherent risks within the risk appetite.
c) Where residual risks are not in line with the risk appetite, action is being taken to remedy the same.
d) Risk management processes, including the effectiveness of responses and the completion of actions, are being monitored by management to ensure they continue to operate effectively.
e) Risks, responses and actions are being properly classified and reported.

This enables internal audit to provide the Board with assurance that it needs on three areas:

i) Risk management processes, both their design and how well they are working.
ii) Management of those risks classified as 'key', including the effectiveness of the controls and other responses to them.
iii) Complete, accurate and appropriate reporting and classification of risks.

Therefore, it is rightly said that "Risks are inherent in every organisation. Thus, the success of an organisation largely depends on how well it can manage its risks".

6. (b)

Applicability of Secretarial Audit is determined under the provisions of two different laws, they are as under;
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 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.

   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.

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)

The following are the essential characteristics of a good audit report:

a) **Simplicity:** An audit report should be simple and easily understandable to the users. It should be written is simple language and should be self-explanatory.

b) **Clarity**: The audit report should be clear and unambiguous. The auditor must clearly mention, in his report, the purpose of audit, sources of information, his findings and overall opinion.

c) **Brevity**: The report should be brief and specific. While everything relevant must be disclosed, the report should avoid unnecessary detailing.

d) **Firmness:** The report should firmly state whether, in the opinion of the auditor, the financial statements represent the true and fair view of the performance and state of affairs of the business.

e) **Objectivity:** The audit report should always be based on objective evidences. It is very much required to reduce or eliminate biases, prejudices, or subjective evaluations by relying on verifiable data.

f) **Disclosure**: The audit report should properly disclose all relevant facts and the truth. The relevance should be decided based on materiality of the concerned item.

g) **Impartiality:** The report should be unbiased. The recommendations must be impartial and objective.

h) **Information-based**: Only relevant and accurate information should be included in the audit report.

i) **Timeliness**: The report should be prepared and presented within the stipulated time. This will help in timely decision making.

7. (b)

NFRA's role in recommending auditing standards is discussed below:

NFRA recommends auditing policies and standards to be adopted by companies for approval by the Central Government. For this purpose, the Authority –

(a) 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;

(b) 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.

NFRA 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.

8. (a)

The important items (with brief description) to be checked by in conducting the audit of Nursing Home are as follows:

a) Understand the Constitution:

b) Assess the Internal Control System:

c) Consult the Minute Book:

d) Verify the Receipts Related Transactions:

(i) Vouch collection from patients admitted to the paying beds based on the Patient Admission Registrar and counterfoil of receipts/ copies of bills.

(ii) Vouch collection from various pathological tests based on the counterfoils of receipts/ copies of bills.

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

e) Verify the Payments Related Transactions:

(i) Verify that all capital expenditure associated with machineries, furniture, vehicle, etc. is approved and supported by documentary evidences such as counterfoils cheque, invoices, tenders, etc.

(ii) Vouch the salary paid to staff based on attendance register, payroll, etc. Examine that the appointment of casual staff and payment of their salaries are duly authorized.

(iii) Verify doctor's remuneration should be verified based on the list of visits and operations performed.

(iv) Verify the purchases of pathological test kits, X-ray plate and other consumables based on tenders, orders placed and invoices received.

(v) (v) Vouch all other overhead expenses like telephone bills, electricity bills, fuel bills, etc. based on appropriate documentary evidences.

f) Verification of Assets and Liabilities:

(i) Verify the stock registers of medicines, food items and other equipment and check their valuations.

(ii) Conduct physical verification of fixed assets and investments based on Fixed Asset Register and Investment Register respectively.

(iii) Check the adequacy of depreciated and its accounting.

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

g) Verification of Financial Statements:

(a) Verify that the financial statements have been prepared in the manner and format appropriate to the nature of the organisation.

8. (b)

As per Section 177(1) read with Companies (Meetings of Board and its Powers) Rules, 2014, the Board of directors of every listed company and the following classes of companies shall

constitute an Audit Committee of the Board-

(i) all public companies with a paid-up capital of ten crore rupees or more;

(ii) all public companies having turnover of one hundred crore rupees or more;

(iii) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more.

The Audit Committee has the following power –

(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)]