



INTERMEDIATE EXAMINATION
ANSWER TO PRACTICE TEST PAPER
PAPER – 10
CORPORATE ACCOUNTING AND AUDITING

TERM – JUNE 2026
SYLLABUS 2022

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

- 1. Choose the correct option:** **[15 x 2 = 30]**
- (i) Redeemable Preference Shares of ₹1,00,000 are redeemed at a premium of 5% for which purpose fresh equity capital of ₹40,000 is issued at par. What amount should be transferred to Capital Redemption Reserve account?
- ₹40,000
 - ₹1,05,000
 - ₹65,000
 - ₹60,000
- (ii) Given, paid-up share capital ₹8,00,000 and free reserves ₹4,00,000, what is the maximum amount permissible for buy-back of shares?
- ₹2,00,000
 - ₹2,50,000
 - ₹3,00,000
 - ₹3,50,000
- (iii) Provision for taxation of ₹88,000 will be shown in the Balance Sheet under Equity and Liabilities as:
- Reserves and Surplus
 - Long-term Provisions
 - Share Capital
 - Current Liabilities
- (iv) Investment of ₹45,00,000 in 40,000 12% debentures of ₹100 each of Amrit Ltd. will be shown in the Balance Sheet under:
- Current Assets – Inventories
 - Non-current Assets – Non-current Investments
 - Current Assets – Short-term Investments
 - Revenue Expenditure
- (v) Cash flows from operating activities (₹550) Lakhs Cash flows from investment activities (₹1,250) Lakhs Cash flows from financing activities ₹1,750 Lakhs Determine the changes in cash and cash equivalents is
- Decrease in Cash and Cash Equivalent by ₹50 Lakhs
 - Increase in Cash and Cash Equivalent by ₹50 Lakhs
 - No change in Cash and Cash Equivalent
 - It is a non Cash item
- (vi) Which of the following is a principle of insurance?
- Principle of indemnity
 - Insurable interest.
 - Principle of uberrimae fidei
 - All of the above



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- (vii) According to Ind AS 19 – Employee Benefits, when should an entity recognise a liability for employee benefits?
- When employee benefits are paid
 - When an employment contract is signed
 - When an employee has provided service in exchange for employee benefits to be paid in the future
 - When employee benefits are approved by management
- (viii) A Ltd. has 1,00,000 ordinary shares of ₹1 each and 20,000, 10% preference shares of ₹1 each. The gross profit for the year ended 31.03.2025 is ₹3,50,000 and other operating expenses amount to ₹1,00,000. The applicable tax rate is 30%.
What is the profit attributable to ordinary equity holders?
- ₹1,75,000
 - ₹1,73,000
 - ₹2,50,000
 - ₹1,00,000
- (ix) Fair value before right issue ₹20. Theoretical ex-right fair value ₹18. Calculate right factor.
- 1.2
 - 1.15
 - 1.11
 - 1.10
- (x) Environmental audit is defined as the examination of the correctness of:
- Financial balance sheets
 - Cost accounting records
 - Environmental accounts
 - Production reports
- (xi) Audit working papers are also known as:
- Audit documentation
 - Audit notes
 - Audit files
 - Accounting records
- (xii) Which characteristic requires the audit report to be clear and free from ambiguity?
- Objectivity
 - Disclosure
 - Firmness
 - Clarity
- (xiii) Which type of audit opinion is issued when misstatements are material and pervasive?
- Qualified opinion
 - Adverse opinion
 - Disclaimer of opinion
 - Qualified opinion
- (xiv) Total revenue of a restaurant should be verified on the basis of:
- Cash book and ledger
 - Daily and monthly sales reports
 - Purchase invoices



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d. Petty cash book

- (xv) Physical verification of tangible fixed assets should be conducted with reference to:
- Cash Book
 - Stock Register
 - Fixed Asset Register
 - Purchase Register

Solution:

i	ii	iii	iv	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv
d	c	d	b	a	d	c	b	c	c	a	d	b	b	c

Section – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5 x 14 = 70]

2.

- (a) A limited Company was registered with a capital of ₹ 5,00,000 in share of ₹ 100 each and issued 2,000 such shares at a premium of ₹ 20 per share, payable as ₹ 20 per share on application, ₹ 50 per share on allotment (including premium) and ₹ 20 per share on first call made three months later. All the money payable on application, and allotment were duly received but when the first call was made, one shareholder paid the entire balance on his holding of 30 shares, and another shareholder holding 100 shares failed to pay the first call money.

Required: Prepare Journal entries to record the above transactions.

[7]

- (b) SDF Ltd. has an authorized capital of ₹100,00,000 divided into 10 lacs shares of ₹10 each. The company issued 10,00,000 shares for subscription to the public at a premium of ₹5 each. The entire issue was underwritten as follows:

A – 1,20,000 shares (firm underwriting 20,000 shares)

B – 60,000 shares (firm underwriting 8,000 shares)

C – 20,000 shares (firm underwriting 4,000 shares)

Of the total issue, only 1,80,000 shares, including firm underwriting, were subscribed for marked application forms excluding firm underwriting were: A- 64,000 shares; B - 40,000 shares; C-16,000 shares.

Calculate the liability of each underwriter giving the benefit of firm underwriting to all.

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Solution:



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2.

(a) **In the books of A limited
Journal**

Particulars	Dr. ₹	Cr. ₹
Bank A/c Dr. To Share Application A/c [Being the issue of 2,000 shares and application money received @ ₹ 20 per share]	40,000	40,000
Share Application A/c Dr. To Share Capital A/c [Being the transfer of application money on 2,000 shares @ ₹ 20 per share to Share Capital A/c]	40,000	40,000
Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being the allotment money on 2,000 shares @ ₹ 50 including premium made due)	1,00,000	60,000 40,000
Bank A/c Dr. To Share Allotment A/c (Being the allotment money on 2,000 shares @ ₹ 50 per share received)	1,00,000	1,00,000
Share First Call A/c Dr. To Share Capital A/c (Being the first call money on 2,000 shares @ ₹ 20 per share made due)	40,000	40,000
Bank A/c Dr. To Share First Call A/c To Call-paid-in-advance A/c (Being the first call money on 1,900 shares @ ₹20 per share and share Second call money on 30 shares @ ₹30 per share received)	38,900	38,000 900
Calls in Arrear A/c Dr. To Share First Call A/c (Being the first call money for 100 shares is in arrear)	2,000	2,000

(b) Working Notes:

1. Unmarked Applications:

Total subscription (excluding firm underwriting)[1,80,000-20,000-8,000-4,000] = 1,48,000

Less: Marked Applications (excluding firm underwriting)[64,000+40,000+16,000] = 1,20,000

Unmarked Applications = 28,000

Shared among A, B & C as 6:3:1

A = 28,000 × 6/10 = 16,800



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$$B = 28,000 \times \frac{3}{10} = 8,400$$

$$C = 28,000 \times \frac{1}{10} = \frac{2,800}{= 28,000}$$

Statement showing the Liability of underwriters

Particulars	A	B	C
Gross Liability	1,20,000	60,000	20,000
Less: Marked applications (excluding firm underwriting)	(64,000)	(40,000)	(16,000)
Less: Firm Underwriting	(20,000)	(8,000)	(4,000)
Balance	36,000	12,000	0
Less: Unmarked applications in the ratio of (6:3:1)	(16,800)	(8,400)	(2,800)
Surplus/Deficit	19,200	3,600	(2,800)
Adjustment of C (6:3)	(1867)	(933)	2,800
Net Liability	17,333	2,667	0
Add: Firm Underwriting	20,000	8,000	4,000
Total Liability	37,333	10,667	4,000

3. The following are the extracts from the Trial Balance of Y Ltd. on March 31, 2025: (figures in ₹)

Provision for current tax (2023-24)	₹4,00,000	Tax deducted at source (2024-25)	₹20,000
Advance tax paid (2023-24)	₹3,60,000	Advance tax paid (2024-25)	₹2,00,000

The assessment for the year 2023-24 was finalized during the year 2024-25. The total tax liability for that year was fixed at ₹4,40,000 and the net amount payable for the year 2023-24 has not yet been paid. The net profit before tax for the year 2024-25 amounted to ₹8,00,000. Balance of Profit & Loss A/c at the end of 2023-24 was ₹ 4,00,000. Assume corporate income tax @ 35% (inclusive of surcharge and education cess) You are required to **prepare**:

- (i) Extract of Statement of Profit and Loss for the year ended March 31, 2025 along with the relevant Notes; and
- (ii) Extract of Balance Sheet as on March 31, 2025 along with the relevant Notes. [14]

Solution:

Y Ltd.
Statement of Profit and Loss for the year ended on 31.03.2025

	Particulars	Note No.	Figures for the Current Reporting Period (₹)	Figures for the Previous Reporting Period
	1	2	3	4
I.	Profit before tax (given)		8,00,000	
II.	Tax Expenses: Current Tax	1	3,20,000	



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III.	Profit from Continuing operations (I-II)		4,80,000	
IV.	Profit from dis-continuing operations		Nil	
V.	Profit for the period (III +IV)		4,80,000	

Notes to Statement of Profit and Loss:

1. Current tax	₹
Provision for income tax (2024-25) [8,00,000 × 35%]	2,80,000
Prior period tax (further provision for 2023-24 (Working 1))	40,000
Total	3,20,000

Y Ltd.

Balance Sheet as on 31.03.2025

	Particulars	Note No.	Figures for the Current Reporting Period	Figures for the Previous Reporting Period
I.	Equity and Liabilities			
	(1) Shareholders' Fund*			
	Reserves and Surplus	1	8,80,000	
	(2) Current liabilities			
	Other current liabilities: I.T Payable (2023-24)		80,000	
	Short term Provisions: Provision for tax (2024-25)		2,80,000	
II.	Assets			
	(1) Current Assets			
	Short term loans and advances: Advance Tax (2024-25)	2	2,20,000	

Notes to Balance Sheet

1. Reserves and Surplus	₹
Surplus: Balance on 01.04.2024	4,00,000
Add: Profit (2024-25)	4,80,000
Total	8,80,000

2. Short term loans and advances	₹
Advance tax (2024-25)	2,00,000
TDS (2024-25)	20,000
Total	2,20,000

Workings:



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Tax assessment (2023-24)

Provision for tax (2023-24) = ₹4,00,000, and Assessed tax = ₹4,40,000

So, further provision required = ₹4,40,000-4,00,000 = ₹40,000

Income tax payable = Assessed tax – advance tax = 4,40,000 – 3,60,000 = ₹80,000

- 4.
- (a) Given below are details of interest on advance of a Solution Bank as on 31.03.2025:

(₹ in Crore)

Particulars	Interest Earned	Interest Received
Performing Assets:		
Term Loan	60	40
Cash Credit and Overdraft	375	310
Bills Purchased and Discounted	75	75
Non-Performing Assets:		
Term Loan	37.50	2.50
Cash Credit and Overdraft	75	6
Bills Purchased and Discounted	50	10

Calculate the income to be recognized for the year ended 31st March, 2025.

[7]

- (b) The Revenue Account of a life insurance company shows the life assurance fund on 31st March, 2025 at ₹ 62,21,310 before taking into account the following items:

(i) Claims covered under re-insurance	₹12,000
(ii) Bonus utilized in reduction of life insurance premium	₹4,500
(iii) Interest accrued on securities	₹8,260
(iv) Outstanding premium	₹5,410
(v) Claims intimated but not admitted	₹ 26,500

Required: Calculate the life assurance fund after taking into account the above omissions.

[7]

Solution:

- (a) Basis of Recognition: As per RBI Circular, Interest on non-performing assets are considered on Cash Basis and interest on performing assets are considered on Accrual Basis.

Statement showing interest income to be recognized for the year ended 31.03.2025:

(₹ in Crore)

Particulars	Amount (₹)	Amount (₹)
A. Interest on Performing Assets: Accrual Basis:		
Term Loan	60	
Cash Credit and Overdraft	375	
Bills Purchased and Discounted	75	510



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B. Interest on Non-Performing Assets: Cash Basis		
Term Loan	2.50	
Cash Credit and Overdraft	6	
Bills Purchased and Discounted	10	18.50
C. Interest Income to be recognized (A+B)		528.50

(b) Statement showing Life Assurance Fund

Particulars	(₹)	(₹)	(₹)
Balance of Fund as on 31st March, 2023			62,21,310
Add:			
Interest on securities		8,260	
Premium outstanding		5,410	13,670
			62,34,980
Less:			
Claims outstanding	26,500		
(-) Covered under re-insurance	12,000	14,500	
Bonus in reduction of premium		4,500	19,000
Balance of Life Assurance Fund			62,15,980

5.

(a) The following information relating to White Ltd.

Particulars	Amount (₹ in Lakhs)
Profit before Voluntary retirement payments but after depreciation	37.50
Depreciation	5.00
VRS Payments	5.00
Provision for taxation	16.05
Fringe benefit tax	2.50
Paid up share capital (Shares of ₹ 10 each fully paid)	46.50

Required:

Based on the data provided above, calculate the Earnings Per Share (EPS) for White Ltd.

[7]



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- (b) Following is the cash flow abstract of Shyam Ltd. for the year ended 31st March, 2025:
Cash Flow (Abstract)

Inflows	Amount (₹)	Outflows	Amount (₹)
Opening balance:		Payment for Account Payables	45,000
Cash	5,000	Salaries and wages	12,500
Bank	35,000	Payment of overheads	7,500
Share capital – shares issued	2,50,000	Property, plant and equipment acquired	2,00,000
Collection on account of Trade Receivables	1,75,000	Debenture redeemed	25,000
Sale of Property, Plant and equipment	35,000	Bank loan repaid	1,25,000
		Taxation	27,500
		Dividends	50,000
		Closing balance:	
		Cash	2,500
		Bank	5,000
	5,00,000		5,00,000

Required:

Prepare the Cash Flow Statement of Shyam Ltd. for the year ended 31st March, 2025.

[7]

Solution:

- (a) Calculation of Earnings per Share:

Particulars	Amount (₹ in Lakhs)
(a) Profit before tax but after depreciation	37.50
(b) Less: Voluntary Retirement Payments	(5.00)
(c) Less: Provision for taxation	(16.05)
(d) Less: Fringe benefit tax	(2.50)
(e) Net Profit attributable to equity shareholders	13.95
(f) Number of equity shares outstanding (46.50 / 10)	4.65
(g) Earnings per share (e/f)	3.00



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(b) **Cash flow statement for the year ended 31.03.2025**

Particulars	Amount (₹)	Amount (₹)
Cash flow from operating Activities:		
Cash received on account of trade receivables	1,75,000	
Cash paid on account of trade payables	(45,000)	
Cash paid to employees(salaries and wages)	(12,500)	
Other cash payments (overheads)	(7,500)	
Cash generated from operations	1,10,000	
Income tax paid	(27,500)	
Net cash generated from operating activities		82,500
Cash flow from investing Activities:		
Payment for purchase of Property, plant and equipment	(2,00,000)	
Proceeds from sale of Property, plant and equipment	35,000	
Net cash used in investment activities		(1,65,000)
Cash flow from financing Activities:		
Proceeds from issue of share capital	2,50,000	
Bank loan repaid	(1,25,000)	
Debentures redeemed	(25,000)	
Dividends paid	(50,000)	
Net cash used in financing activities		50,000
Net decrease in cash and cash equivalents		(32,500)
Cash and cash equivalents at the beginning of the year		40,000
Cash and cash equivalents at the end of the year		7,500

6.

- (a) **Distinguish between Audit and Investigation.** [7]
(b) **Explain the provisions of Companies Act 2013 relating to secretarial audit.** [7]

Solution:

- (a) It is to be noted that both Auditing and Investigation have a fact-finding character. Both involve a systematic and critical examination of the available evidence, yet these are quite distinct from each other as follows



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	BASIS	AUDIT	INVESTIGATION
1.	Meaning	Auditing is an independent and systematic examination of the evidence underlying the accounting or other data in accordance with the generally accepted auditing practices to ascertain the true and fair view of the financial statements of an enterprise.	An investigation may be defined as an examination of accounts and records with a view to ascertain any fact for some special purpose which varies from assignment to assignment.
2.	Scope	The audit has a wide scope. In statutory audit, the scope is determined by the relevant law and in case of a private audit (e.g., management audit) by a client.	The scope of investigations, on the other hand, is limited as regards the period or areas to be covered.
3.	Objective	In audit, the accounts and records are verified as to their truth and fairness.	Investigation is for special purpose (e.g., investigation on the behalf of incoming partner)
4.	Audit Procedure	The audit is conducted in accordance with the generally accepted auditing principle.	Investigations involve an extended auditing procedure.
5.	Evidence	An auditor will evaluate the accounting records predominantly based on persuasive evidence.	An investigator can draw his conclusions only on the basis of substantial or sometimes conclusive evidence.
6.	Approach	Auditor is skeptical and not suspicious.	Whereas an investigator starts with suspicion and collects evidence to either confirm or dispel that suspicion.
7.	Periodicity	Auditing is a routine exercise (normally conducted annually).	Investigation may spread over a period longer than one year.

(b) Section 204 [read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014] of the Companies Act 2013 has introduced Secretarial Audit for the following class of companies.

(i) Every listed company;

(ii) Every public company having a paid-up share capital of fifty crore rupees or more; or-

(iii) Every public company having a turnover of two hundred fifty crore rupees or more.

(iv) Every company having outstanding loans or borrowings from banks or public financial institutions of one hundred crore rupees or more.

Accordingly, the following provisions have been suggested in relation to Secretarial Audit in these companies.

(1) The above Companies shall Annex with its Board's Report made in Terms of Sub-Section (3) of section 134, a secretarial audit report, given by a company secretary in practice, in the format prescribed in Form MR-3 as per Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

(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.

(3) The Board of Directors, in their report made in terms of sub-section (3) of section 134, shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report under sub-section (1).

(4) 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.



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7.

- (a) Apply the audit process to verify occurrence, cut-off, completeness, measurement, and presentation of finance cost. [7]
- (b) Examine NFRA's role in monitoring and enforcing compliance with auditing standards. [7]

Solution:

- (a) Generally, Finance Cost comprises of interest cost on structured debt instruments such as Debentures as well as traditional institutional finance such as Bank Loan, secured or unsecured. In order to conduct the audit of finance cost, the auditor must procure the schedule of loan and information relating to all structured debt instruments, the rate of interest applicable and the tenure of such loan based on which he shall be able to determine the amount of interest.

- Audit Procedure to be Followed

In addition, the auditor shall resort to the following audit procedure:

i. Occurrence

- The auditor shall see whether interest has been provided on all eligible debt instruments and loans.
- He shall verify the amount of interest payment from bank statement and shall check the same with accounting entries in the cash book and general ledger.
- He shall see that interest was paid and provided only in respect of loans outstanding either for a part of the year or for entire year.

ii. Cut-off

- The auditor shall ensure that interest has been provided only for the period the loan was outstanding during the year.

iii. Completeness

- The auditor shall ensure that interest due but not paid has also been considered as Accrued Interest and the same is appropriately accounted and shown in the financial statement.

iv. Measurement

- The auditor must verify the calculation of interest payable based on the rate, loan amount outstanding and the period for which the loan remains outstanding during the year.
- He shall be extra careful with loan items repaid during the year and debentures redeemed during the year.

v. Presentation and Disclosure

- The auditor must see that the disclosure requirements as per Schedule III (Part 1) and various Accounting Standards (or Ind ASs) have been duly complied with.

- (b) NFRA's role in monitoring and enforcing compliance with Auditing Standards is discussed below:

- 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:



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- review working papers (including audit plan and other audit documents) and communications related to the audit;
- evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and
- perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate.
- 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.
- 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.
- The Authority shall perform its monitoring and enforcement activities through its officers or experts with sufficient experience in audit of the relevant industry.
- 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.
- 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.
- The Authority may send a separate report containing proprietary or confidential information to the Central Government for its information.
- 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.

8.

- (a) Apply the audit procedures for examining accounts of Cinema Halls.**
- (b) Analyze the concept and benefits of joint audit.**

[7]

[7]

Solution:

- (a) Cinema Halls:**
- Check whether appropriate control is in force over tickets of different denominations. Verify whether unsold tickets are kept under lock and key under the responsibility of any official.
 - Vouch the collections based on daily sales report of tickets and entries in the cash book.
 - Check whether collections from advance bookings have been duly adjusted.
 - Vouch collections on account of rental income due to hiring of the hall for special events based on the respective contract and counterfoil of receipt.



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- Vouch collection from sale of drinks, refreshments etc based on their daily sales report and entries in the cash book.
- Check whether the entertainment tax collected as a part of the ticket value has been appropriately accounted and deposited within due dates. See that entertainment tax collected but not deposited has been considered as a liability in the financial statement.
- Vouch payments relating to hiring of films based on relevant contract with the distributor and receipts.
- Vouch payment on account of advertisement with the advertising agencies based on the agreements and receipts.
- Payment to suppliers of refreshments should be vouched based on orders placed, invoices and entries in the cash book.
- Vouch salary paid to staff based on payroll, attendance register and leave applications. Appointment of casual staff must be verified based on appointment letter issued by the responsible authority only.
- 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.

- (b) Joint audit refers to the process of conducting the audit of a single organisation by more than one auditor. Large Companies with diversified business operations often resort to this process of auditing where they employ multiple auditors to conduct statutory audit. The basic aim in applying joint audit is to pull the resources of multiple auditors to conduct audit efficiently and within lesser amount of time.

Benefits of Joint Audit

The benefits of joint audit are as follows:

- Joint audit reduces the workload of a single auditor.
- Since different auditors may be engaged to handle different parts of accounts, timely completion of work is possible even in a large organisation.
- The auditors may share their expertise and solve critical problems in the process.
- Joint audit improves the quality of audit work to a great extent.
- There may be healthy competition among the auditors which improves the quality and speed of the audit work.
- Under joint audit, it is possible to get the benefit of extensive knowledge of different auditors at the same time.