PUNJAB STATE TRANSMISSION CORPORATION LTD.

Departmental Accounts Examination- 2023 (2nd Session)

Category – SAS-II **Paper- VI** **Roll No............**

Accounts & Auditing

Time allowed: 3 hours **Max. marks: 100**

Note: All questions are compulsory

Q.1(a) Journalise the following transactions in the books of Karanjia Bros.:

(i) Karanjia commenced business with Rs. 4,000, of which Rs. 1,500 was borrowed from his wife as loan at 6% interest.

(ii) Purchased office equipment for Rs. 200 from Sunder.

(iii) Bought goods from Parkash at one month's credit for Rs. 600, of which half were invoiced to Manohar at 30% above cost.

(iv) Paid carriage and cartage on goods sold to Manohar, chargeable to his account, Rs.10.

(v) Kulwant sold us goods worth Rs. 800 and he paid railway freight, Rs.30 on our account.

(vi) Office rent Rs.40 for the month was paid to landlord.

(vii) Purchased 25 shares of Hindustan Lever Ltd. at Rs.75 per share.

(viii) Received Rs. 25 as dividend on the above shares.

(ix) Sold goods to Mohinder, Rs.450.

(x) Gurdial invoiced goods to us, Rs.930.

(xi) Sent goods to Fernades against his pending order of the last month, Rs.600.

(xii) Paid salaries to clerks, Rs.210 and advertising expenses Rs. 20.

(xiii) Withdrew Rs. 60 for personal use.

(Marks: 6)

(b) From the undermentioned ledger balances of Shri Talwar of Lucknow, prepare a trial balance as at 31st March 2007.

	Rs.		Rs.
Capital	30,000	Bank deposit	5,000
Stock on 1.4.06	22,000	Stock on 31.3.07	20,600
Business premises	20,000	Sundry creditors	13,800
Sundry debtors	18,000	Reserve fund	4,200
Furniture and fittings	2,200	Purchases less returns	1,08,000
Sales	1,50,000	Sales returns	2,000
Discount allowed	1,600	Commission received	1,800
Interest on bank deposits	200	Rates and taxes	920
Insurance premium	1,080	Rent received from tenant	1,400
General expenses	4,000	Wages	4,200
Salaries	7,800	Carriage inwards	1,800

			1,530
Carriage outwards	470	Cash in hand	
Bad debts written off	800		

(Marks: 6)

(c) A company bought machinery for Rs. 4,00,000, including a shaft worth Rs. 40,000. The machinery is subject to depreciation at 10% by reducing instalment method. In the beginning of the fifth year, the shaft became obsolete and was sold for Rs. 8,000. Write up the machinery account for five years.

(Marks: 8)

Q. 2 (a) When an asset shall be classified as a Current asset as per Ind AS 1? Also explain Operating Cycle.

(Marks: 5)

(b) Alpha Ltd on 1st April 2021 borrowed 9% 30,00,000 to finance the construction of two qualifying assets. Construction started on 1st April 2021. The loan facility was availed on 1st April 2021 and was utilized as follows with remaining funds invested temporarily at 7%.

	Factory Building	Office Building
1st April 2021	5,00,000	10,00,000
1st October 2021	5,00,000	10,00,000

Calculate the cost of the asset and the borrowing cost to be capitalized.

(Marks: 5)

(c) Entity ABC acquired a building for its administrative purposes and presented the same as property, plant and equipment(PPE) in the financial year 2021-22. During the financial year 2022-23, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, Entity ABC reclassified it from PPE to investment property in the financial year 2022-23. Should Entity ABC account for the change as a change in accounting policy?

(Marks: 5)

(d) X Ltd. has a treasury department that arranges funds for all the requirements of the Company including funds for working capital and expansion programs. During the year ended March 31, 2020, the Company commenced the construction of a qualifying asset and incurred the following expenses:

Date	**Amount(Rs.)**
1 July, 2019	2,50,000
1 December, 2019	3,00,000

The details of borrowings and interest thereon are as under:

Particulars	Average Balance (Rs.)	Interest(Rs.)
Long term loan @ 10%	10,00,000	1,00,000
Working Capital Loan	5,00,000	65,000
Total	**15,00,000**	**1,65,000**

Compute the borrowing costs that should be capitalized as per Ind AS 23.

(Marks: 5)

Q. 3 From the following trial balance of Ram Kumar as on 31st March 2006, prepare trading and profit and loss account for the year ending 31st March 2006 and a balance sheet as on that date.

Trial Balance

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Ram Kumar's Capital		10,809
Drawings account	1,000	
Stock (1.4.2005)	4,680	
Sales and sales returns	860	28,960
Purchases and purchases returns	24,310	580
Freight and carriage	1,860	
Rent and taxes	570	
Salaries and wages	930	
Sundry debtors and creditors	2,400	1,480
Bank loan @6% (1.4.2005)		2,000
Bank interest	90	
Printing and advertising	1,460	
Income from investment		25
Discount receivable		369
Discount payable	734	
General expenses	361	
Audit fees	50	
Insurance	80	
Travelling expenses	213	
Postage and telegrams	87	
Deposits with bank at 5% (1.4.2005)	3,000	
Cash in hand	38	
Cash at bank	820	
Investment	500	
Furniture and fittings	180	
	44,223	**44,223**

Adjustments:

(i) The stock on March 31, 2006 was valued at Rs. 7,860.

(ii) 50% of printing and advertising is to be carried forward as a charge in the following year.
(iii) Depreciation 10% on furniture and fittings.
(iv) 5% reserve on debtors for bad debts.
(v) Reserve 2.5% for discount on debtors and creditors.
(vi) Expenses outstanding – salaries Rs. 50, carriage Rs. 10.
(vii) Insurance prepaid amounted to Rs. 20.
(viii) Bring into account the full year's interest on deposits with bank.

(Marks: 20)

Q. 4 (a) From the following particulars, prepare a bank reconciliation statement as on March 31, 2014.

(i) Debit balance as per cash book is Rs. 10,000.
(ii) A cheque for Rs. 1,000 deposited but not recorded in the cash book.
(iii) A cash deposit of Rs. 200 was recorded in the cash book as if there is not bank, column therein.
(iv) A cheque issued for Rs. 250 was recorded as Rs. 205 in the cash column.
(v) The debit balance of Rs. 1,500 as on the previous day was brought forward as a credit balance.
(vi) The payment side of the cash book was under cast by Rs. 100.
(vii) A cash discount allowed of Rs. 112 was recorded as Rs. 121 in the bank column.
(viii) A cheque of Rs. 500 received from a debtor was recorded in the cash book but not deposited in the bank for collection.
(ix) One outgoing cheque of Rs. 300 was recorded twice in the cash book.

(Marks:10)

(b) Explain the types of modified opinions in the Independent Auditor's Report.

(Marks: 10)

Q. 5 (a) What is the scope of audit? (Marks: 5)
(b) What is the meaning and objectives of Internal Control? (Marks:10)
(c) Distinction between Verification and Vouching. (Marks: 5)

PUNJAB STATE TRANSMISSION CORPORATION LTD.

Departmental Accounts Examination- 2023(2nd session)

Category – SAS-II **Paper- VI**

Solution of Paper Accounts & Auditing

Ans. 1(a) **Books of Karanjia Bros.**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(i)	Cash Account Dr. To Karanjia's Capital Account To Mrs. Karanjia's loan account (For commencing business with capital and the loan)		4,000	 2,500 1,500
(ii)	Office Equipment Account Dr. To Sunder (For the purchase of office equipment on credit)		200	 200
(iii)	Purchases Account Dr. To Parkash (For the purchase of goods on credit vide inward invoice No. ……)		600	 600
	Manohar Dr. To Sales Account (For the sales of half the goods on credit at 30% above invoice price = [130/100 x 300]		390	 390
(iv)	Manohar Dr. To Cash Account (For the payment of cartage etc., on behalf of customer – Manohar)		10	 10
(v)	Purchases Account Dr. Freight Account Dr. To Kulwant (For the purchases including freight on credit)		800 30	 830
(vi)	Rent Account Dr. To Cash Account (For the payment of rent)		40	 40
(vii)	Investments Account Dr. To Cash Account (For the purchase of shares as investments)		625	 625
(viii)	Cash Account Dr. To Dividend Account (For the receipt of dividend)		25	 25
(ix)	Mohinder Dr. To Sales Account (For the sales on credit vide outward invoice No. ….)		450	 450
(x)	Purchases Account Dr. To Gurdial (For the credit purchases vide inward invoice No. …)		930	 930

(xi)	Fernandes	Dr.		600	
	To Sales Account				600
	(For sale vide outward invoice no. ....)				
(xii)	Salaries Account	Dr.		210	
	Advertisement Account	Dr.		20	
	To Cash Account				230
	(For meeting the above expenses)				
(xiii)	Drawings Account	Dr.		60	
	To Cash Account				60
	(For withdrawal for personal use)				
	Grand Total			8,990	8,990

(Marks 6)

Ans. 1(b)

Trial Balance

S.No.	Heads of accounts	L.F.	Debit balance (Rs.)	Credit balance (Rs.)
	Capital			30,000
	Stock on 1.4.06		22,000	
	Business premises		20,000	
	Sundry debtors		18,000	
	Furniture		2,200	
	Sales			1,50,000
	Discount allowed		1,600	
	Interest on bank deposit			200
	Insurance premium		1,080	
	General expenses		4,000	
	Salaries		7,800	
	Carriage outwards		470	
	Bad debts written off		800	
	Bank deposit		5,000	
	Sundry creditors			13,800
	Reserve fund			4,200
	Purchases less returns		1,08,000	
	Sales returns		2,000	
	Commission received			1,800
	Rates and taxes		920	
	Rent received from tenants			1,400
	Wages		4,200	
	Carriage inwards		1,800	
	Cash in hand		1,530	
			2,01,400	2,01,400

Note. Closing stock will not be shown in the trial balance, because it has not been adjusted. (Marks 6)

Ans. 1(c)

Dr. **Machinery Account** **Cr.**

		Rs.			Rs.
Ist yr.	To Bank a/c	4,00,000	Ist yr.	By Depreciation a/c	40,000
				By Balance c/d	3,60,000
		4,00,000			4,00,000
IInd yr.	To Balance b/d	3,60,000	IInd yr.	By Depreciation a/c @ 10% on Rs. 3,60,000	36,000
				By Balance c/d	3,24,000
		3,60,000			3,60,000
IIIrd yr.	To Balance b/d	3,24,000	IIIrd yr.	By Depreciation a/c @ 10% on Rs. 3,24,000	32,400
				By Balance c/d	2,91,600
		3,24,000			3,24,000
IVth yr.	To Balance b/d	2,91,600	IVth yr.	By Depreciation a/c @ 10% on Rs. 2,91,600	29,160
				By Balance c/d	2,62,440
		2,91,600			2,91,600
Vth yr.	To Balance b/d	2,62,440	Vth yr.	By Bank a/c	8,000
				By Profit & loss a/c (Loss on sale of shaft)	18,244
				By Depreciation a/c @ 10% on Rs. 2,36,196	23,620
				By Balance c/d	2,12,576
		2,62,440			2,62,440

Working Notes :

Loss on sale of shaft:

		Rs.
Cost of shaft		40,000
Less : Depreciation for 4 years (4,000+3,600+3,240+2,916)		13,756
Written down value		26,244
Less: sale proceeds		8,000
Loss on sale		18,244

Depreciation for Vth year:

Cost of machinery		4,00,000
Less: Depreciation for 4 years (40,000+36,000+32,400+29,160)	1,37,560	
W.D.V. of shaft sold	26,244	1,63,804
W.D.V. of machinery at the end of Vth year		2,36,196

(Marks 8)

(Total 6+6+8=20)

Ans.2(a)

Current Asset – " An entity shall classify an asset as current when:

(a) It expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
(b) It holds the asset primarily for the purpose of trading;
(c) It expects to realise the asset within twelve months after the reporting period;
(d) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current."

Operating Cycle – " The operating cycle of an entity is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, it is assumed to be twelve months."

(Marks 5)

Ans.2(b)

Particulars	**Factory Building**	**Office Building**
Borrowing Costs	(10,00,000*9%) = 90,000	(20,00,000*9%)= 1,80,000
Less: Investment Income	5,00,000*7*6/12) = 17,500	(10,00,000*7%*6/12)= 35,000
	72,500	1,45,000
Cost of the asset:		
Expenditure incurred	10,00,000	20,00,000
Borrowing Costs	72,500	1,45,000
Total	**10,72,500**	**21,45,000**

(Marks 5)

Ans.2(c)

Paragraph 16(a) of Ind AS 8 provides that the application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring are not changes in accounting policies.

As per Ind AS 16, 'property, plant and equipment' are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one period."

As per Ind AS 40, 'investment property' is property (land or a building – or part of a building – or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for : use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business."

As per the above definitions, whether a building is an item of property, plant and equipment (PPE) or an investment property for an entity depends on the purpose for which it is held by the entity. It is thus possible that due to a change in the purpose for which it is held, a building that was previously classified as an item of property, plant and equipment may warrant reclassification as an investment property, or vice versa. Whether a building is in the nature of PPE or investment property is determined by applying the definitions of these terms from the perspective of that entity. Thus, the classification of a building as an item of property, plant and equipment or as an investment property is not a matter of an accounting policy choice. Accordingly, a change in classification of a building from property, plant and equipment to investment property due to change in the purpose for which it is held by the entity is not a change in an accounting policy.

(Marks 5)

Ans.2(d) The Standard provides guidance for capitalization of borrowing costs of the funds generally borrowed in paragraph 14 which states as follows: "14 1 To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to all borrowings of the entity that are outstanding during the period. However, an entity shall exclude from this calculation borrowing costs applicable to borrowings made specifically for the purpose of obtaining a qualifying asset until substantially all the activities necessary to prepare that asset for its intended use or sale are complete. The amount of borrowing costs that an entity capitalizes during a period shall not exceed the amount of borrowing costs it incurred during that period." Therefore, based on the above guidance the interest to be capitalized is computed as follows:

Computation of Capitalisation rate:

$$\frac{(\text{Amount of borrowing1 x Interest rate1}) + (\text{Amount of borrowing2 x Interest rate2})}{\text{Total amount of borrowings outstanding during the year}} * 100$$

$$= \frac{(1,00,000) + (65,000)}{15,00,000} = 11\%$$

Interest will be capitalized as under:-

On Rs. 2,50,000 @ 11% p.a. for 9 months = Rs. 20,625

On Rs. 3,00,000 @ 11% p.a. for 4 months = Rs. 11,000

(Marks 5)

(Total 4*5=20)

Ans. 3

Trading and Profit & Loss Account of Ram Kumar

for the year ending March 31, 2006

Dr. **Cr.**

Particulars		Amount Rs.	Particulars		Amount Rs.
To Stock(1.4.2005)		4,680	By Sales	28,960	
			Less: Returns	860	28,100
To Purchases	24,310		By Stock(closing)(31.03.2006)		7,860
Less: Returns	580	23,730			
To Freight and Carriage	1,860				
Add: Outstanding	10	1,870			
To Gross Profit (Transferred to P&L a/c)		5,680			
		35,960			**35,960**
To Rent and taxes		570	By Gross Profit(Transferred from trading account)		5,680
To Salaries and wages	930		By Income from Investment		25
Add: Outstanding	50	980			
To Bank Interest	90		By Discount receivable		369
Add: Outstanding	30	120			
To Printing and advertising	1,460		By Reserve for discount on creditors		37
Less: Prepaid	730	730			
To Discount paid		734	By Accrued interest on deposit		150
To General expenses		361			
To Audit Fees		50			
To Insurance	80				
Less: Insurance prepaid	20	60			
To Travelling expenses		213			
To Postage & telegrams		87			
To Depreciation(10% on furniture and fittings)		18			
To Bad debts reserve		120			
To Reserve for discount on debtors		57			
To Net profit(Transferred to capital a/c)		2,161			
		6,261			**6,261**

Balance Sheet of Ram Kumar as at March 31, 2006

Capital & Liabilities		**Amount Rs.**	**Assets and properties**		**Amount Rs.**
Creditors	1,480		Cash in hand		38
Less: Reserve for discount	37	1,443	Cash at bank		820
Bank Loan		2,000	Debtors	2,400	
Outstanding expenses:			Less: Reserve for bad debts	120	
Interest	30			2,280	
Freight & carriage	10		Less: Reserve for discount	57	2,223
Salaries	50	90	Deposits with bank		3,000
Capital	10,809				
Add: Net Profit	2,161				
	12,970				
Less: Drawings	1,000	11,970	Closing stock		7,860
			Prepaid printing and advertising		730
			Accrued interest		150
			Prepaid insurance		20
			Investment		500
			Furniture and fittings	180	
			Less: Depreciation	18	162
		15,503			**15,503**

(Marks 20)

Ans. 4(a)

Bank Reconciliation statement as on September 30, 2014

	Particulars	(+) Amount Rs.	(-) Amount Rs
1.	Debit balance as per cash book	10,000	
2.	Error in carrying forward	3,000	
3.	Cheque recorded twice in cash book	300	
4.	Cheque deposit not record in bank column	200	
5.	Cheque deposit but not recorded	1,000	
6.	Under casting of payment side		100
7.	Cheque issued but not entered		250
8.	A cash discount wrongly recorded in bank column		121
9.	Cheque recorded but not deposited		500
10.	Credit balance as per passbook		13,529
		14,500	**14,500**

(Marks 10)

Ans. 4(b) There are three types of modified opinions in the Independent Auditor's Report, namely-

1. A qualified opinion
2. An adverse opinion
3. A disclaimer of opinion

Qualified Opinion

The auditor shall express a qualified opinion when:

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion

The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

(Marks 10)

(Total 2*10=20)

Ans. 5(a) The following points merit consideration in regard to scope of audit:

1. The audit should be organized to cover adequately all aspects of the enterprise relevant to the financial statements being audited.
2. To form an opinion on the financial statements, the auditor should be reasonably satisfied as to whether the information contained in the underlying accounting records and other source data is reliable and sufficient as the basis for the preparation of the financial statements.
3. In forming his opinion, the auditor should also decide whether the relevant information is properly disclosed in the financial statements subject to statutory requirements, where applicable.
4. The auditor assesses the reliability and sufficiency of the information contained in the underlying accounting records and other source data by:
   (a) making a study and evaluation of accounting systems and internal controls and
   (b) carrying out such other tests, enquiries and other verification procedures of accounting transactions and account balances as he considers appropriate in the particular circumstances.
5. The auditor determines whether the relevant information is properly disclosed in the financial statements by:
   (a) comparing the financial statements with the underlying accounting records and other source data to see whether they properly summarize the transactions and events recorded therein; and
   (b) considering the judgments that management has made in preparing the financial statements accordingly, the auditor assesses the selection and consistent application of accounting policies, the manner in which the information has been classified, and the adequacy of disclosure.
6. The auditor is not expected to perform duties which fall outside the scope of his competence. For example, the professional skill required of an auditor does not include that of a technical expert for determining physical condition of certain assets.
7. Constraints on the scope of the audit of financial statements that impair the auditor's ability to express an unqualified opinion on such financial statement should be set out in his report, and a qualified opinion or disclaimer of opinion should be expressed as appropriate.

(Marks 5)

Ans. 5(b)

<u>Meaning of Internal Control</u>

As per SA-315, "Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment", the internal control may be defined as "the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control."

<u>Objectives of Internal Control</u>

(i) transactions are executed in accordance with managements general or specific authorization;

(ii) all transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which executed so as to permit preparation of financial information within a framework of recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets;

(iii) assets are safeguarded from unauthorised access, use or disposition; and

(iv) the recorded assets are compared with the existing assets at reasonable intervals and appropriate action is taken with regard to any differences.

(Marks 10)

Ans. 5(c)

Distinction between Verification and Vouching

Vouching and verification are considered to be one and the same thing. But it is not so. The statement, i.e.
"Vouching proves the accuracy of book entries but the worth of the Balance Sheet can be certified only on verification of assets and liabilities shown therein." is a correct statement. This means that a clear line of demarcation can be drawn between the two. While vouching is to examine the correctness and authenticity of the transactions recorded in books of prime entry, verification is to confirm the value of assets and liabilities as shown in the balance sheet. As such, in verification it is not merely the duty of the auditor to see that assets have been acquired but he has to certify that such assets:

(i) exist with the business,
(ii) are the property of the client, and
(iii) are valued at proper figures on a particular date, namely the date of balance sheet.

Following points distinguish the two
1. **Nature of work**. Vouching examines the entries relating to transactions recorded in the account books while verification examines the assets and liabilities appearing in the balance sheet.
2. **Time**. Vouching is done throughout the year while verification is done at the end of the year when the balance sheet is prepared.
3. **Basis**. Vouching is based only on documentary examination while verification is based on personal as well as documentary examination.
4. **Valuation**. Vouching does not include valuation while verification includes valuation.

(Marks 5)

(Total 5+10+5=20)