Skillshort

Self-Study Preparation Pack

CMA INTERMEDIATE

Paper 10: Corporate Accounting and Auditing (CAA)

Mock Test 1 – Full Paper with Model Answers

ICMAI Syllabus 2022 pattern: 100 marks · 3 hours · Section A – 15 MCQs × 2 (compulsory) · Section B – any 5 of Q2–Q8 (14 marks each) · Original Skillshort questions, numericals verified in Python

Time: 3 hours | Max marks: 100 | No negative marking | Model answers follow the paper

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This subject pack has 6 parts

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Section A – Multiple Choice Questions (30 marks)

Q1. Choose the correct option (2 × 15 = 30).

1. Under section 68 of the Companies Act, 2013, a buy-back authorised only by a Board resolution cannot exceed

(a) 10% of paid-up equity capital and free reserves
(b) 15% of paid-up capital
(c) 25% of paid-up equity capital and free reserves
(d) 25% of free reserves only

2. Securities premium can be applied under section 52 for each of the following except

(a) Issuing fully paid bonus shares
(b) Writing off preliminary expenses
(c) Paying dividend to equity shareholders
(d) Premium payable on redemption of preference shares

3. A share of ₹10, fully called, on which ₹4 had been received, is forfeited and then re-issued at ₹8 as fully paid. The amount transferred to capital reserve per share is

(a) ₹4 (b) ₹2
(c) ₹6 (d) Nil

4. Under Schedule III, a liability is classified as current if any of these applies except

(a) It is expected to be settled in the normal operating cycle
(b) It is held primarily for trading
(c) It is due within 12 months after the reporting date
(d) The company has an unconditional right to defer settlement for at least 12 months

5. In a cash flow statement of a non-financial company, interest paid on debentures is shown under

(a) Operating activities (b) Investing activities
(c) Financing activities (d) Not shown

6. A bank's sub-standard secured advance of ₹40 lakh needs a provision of

(a) ₹1.6 lakh (b) ₹4 lakh
(c) ₹6 lakh (d) ₹10 lakh

7. Profit after tax ₹50 lakh, preference dividend ₹10 lakh, weighted equity shares 8 lakh. Basic EPS is

(a) ₹6.25 (b) ₹5.00
(c) ₹4.50 (d) ₹4.00

8. Under Ind AS 2, which of the following is included in the cost of inventories?

(a) Abnormal wastage
(b) Storage costs after purchase not needed in production
(c) Non-refundable import duty
(d) Selling costs

9. The Standard on Auditing that deals with audit documentation is

(a) SA 200 (b) SA 230
(c) SA 500 (d) SA 700

10. Under SQC 1, audit engagement documentation is to be retained for a period of not less than

(a) 3 years (b) 5 years
(c) 7 years (d) 8 years

11. The cost auditor submits the cost audit report to the Board of Directors in Form

(a) CRA-1 (b) CRA-2
(c) CRA-3 (d) CRA-4

12. The first auditor of a non-government company is appointed by the Board within

(a) 15 days of registration (b) 30 days of registration
(c) 60 days of registration (d) 90 days of registration

13. The risk that a misstatement will not be prevented, or detected and corrected, on a timely basis by the entity's internal control is

(a) Inherent risk (b) Control risk
(c) Detection risk (d) Business risk

14. A Tribunal under section 140(5) may direct a change of auditor if it is satisfied that the auditor has

(a) Charged high fees
(b) Acted fraudulently or abetted or colluded in fraud
(c) Delayed signing the report
(d) Issued a qualified opinion

15. Commission on underwriting of shares cannot exceed

(a) 2.5% of the issue price
(b) 5% of the issue price
(c) 10% of the issue price
(d) The rate in the articles, without any limit

Section A – Answer key with reasons

Q	Ans	Explanation / working
1	(a)	Board approval covers up to **10%**; up to 25% needs a special resolution.
2	(c)	Securities premium **cannot be used to pay dividend**. The uses in s.52(2) are bonus shares, preliminary expenses, issue expenses and discount, redemption premium and buy-back.
3	(b)	Forfeited amount ₹4 less discount on re-issue ₹2 (10 − 8) = **₹2** to capital reserve.
4	(d)	An **unconditional right to defer** settlement beyond 12 months makes it non-current.
5	(c)	For a non-financial company, interest paid is a **financing** outflow; for a finance company it is operating.
6	(c)	15% × 40 lakh = **₹6 lakh**.
7	(b)	(50 − 10) ÷ 8 = **₹5.00**.
8	(c)	Non-refundable duties and taxes are a **cost of purchase**; the others are expensed.
9	(b)	**SA 230** – Audit Documentation.
10	(c)	SQC 1 requires retention for **7 years** from the date of the auditor's report (or the group auditor's report, if later).
11	(c)	**CRA-3** is the cost audit report; CRA-1 – cost records; CRA-2 – intimation of appointment; CRA-4 – filing with Central Government.
12	(b)	s.139(6): Board within **30 days**; if it fails, members in an EGM within 90 days.
13	(b)	That is **control risk**, which with inherent risk makes up the risk of material misstatement.
14	(b)	s.140(5): on proof that the auditor **acted fraudulently or abetted/colluded in fraud**, the Tribunal may order a change; the auditor is then barred for 5 years.
15	(b)	Rule 13 of the Companies (Prospectus and Allotment of Securities) Rules: **5%** of the issue price for shares (2.5% for debentures), as authorised by the articles.

Section B – Descriptive Questions (70 marks)

Answer any five of Questions 2 to 8 (14 marks each). Working notes form part of the answer.

Q2 (a) (7 marks). Kirti Ltd. invited applications for 20,000 equity shares of ₹10 each at a premium of ₹5: ₹4 on application, ₹6 on allotment (including the premium) and ₹5 on first and final call. Applications were received for 30,000 shares. Applications for 2,000 shares were rejected and the money refunded; the remaining applicants were allotted shares pro-rata, the excess application money being adjusted against allotment. Mr. P, who had applied for 1,400 shares, paid neither the allotment nor the call money, and his shares were forfeited after the call. 600 of these shares were re-issued at ₹8 per share fully paid. Pass journal entries for forfeiture and re-issue, and compute the amounts collected on allotment and on call, and the transfer to capital reserve.

(b) (7 marks). Delta Ltd. issued 2,00,000 equity shares of ₹10 each, underwritten X 50%, Y 30% and Z 20%, with firm underwriting of X 10,000, Y 6,000 and Z 4,000 shares. Total applications were 1,60,000 shares including the firm underwriting. Marked applications (excluding firm underwriting) were X 50,000, Y 40,000 and Z 30,000; the rest were unmarked. Firm underwriting is treated like marked applications. Determine the net liability of each underwriter, the total shares each must take up, and the commission at 2.5% of the issue price.

Q3 (14 marks). The trial balance of Alpha Ltd. on 31 March 2026 is given below (₹).

Debit balances	₹	Credit balances	₹
Land and buildings (building ₹5,00,000)	9,00,000	Equity share capital (1,00,000 shares of ₹10)	10,00,000
Plant and machinery (WDV)	6,00,000	10% debentures (redeemable 2030)	4,00,000
Furniture	1,00,000	General reserve	2,00,000
Purchases	24,00,000	Securities premium	1,00,000
Opening inventory	3,00,000	Surplus (P&L) 1 April 2025	1,50,000
Wages	3,50,000	Sales	40,00,000
Salaries	2,40,000	Trade payables	3,20,000
Rent	60,000	Interest received	30,000
Debenture interest (half year)	20,000	Short-term bank loan (repayable in 6 months)	1,00,000
Trade receivables	4,80,000		
Long-term investments	2,50,000		
General expenses	1,20,000		
Interim dividend paid	50,000		
Cash and bank	4,30,000		
Total	**63,00,000**	**Total**	**63,00,000**

Adjustments: (i) closing inventory ₹3,60,000; (ii) depreciation – building 2%, plant 15%, furniture 10%; (iii) debenture interest for the second half-year is outstanding; (iv) provide tax at 30% of profit before tax; (v) transfer 10% of profit after tax to general reserve. Prepare the Statement of Profit and Loss and the Balance Sheet as per Schedule III (Division I) with the main notes.

Q4 (a) (7 marks). From the following advances of Bharat Bank Ltd. on 31 March 2026, compute the provision required: standard ₹200 lakh; sub-standard ₹20 lakh; doubtful up to 1 year ₹8 lakh (realisable security ₹6 lakh); doubtful 1–3 years ₹5 lakh (security ₹4 lakh); doubtful more than 3 years ₹3 lakh; loss assets ₹1.5 lakh.

(b) (7 marks). Jeevan Life Insurance Co. Ltd.: life assurance fund on 1 April 2025 ₹60,00,000; premiums ₹12,00,000; interest and dividends ₹3,00,000; claims ₹5,00,000; commission ₹80,000; expenses of management ₹1,20,000; surrenders ₹40,000. Net liability on 31 March 2026 per actuarial valuation ₹58,00,000; interim bonus paid ₹60,000. Compute the life assurance fund at 31 March 2026 and the surplus, and show its allocation (95% policyholders, 5% shareholders).

Q5 (a) (7 marks). Profit after tax ₹60 lakh; equity shares 20 lakh throughout the year; 50,000 10% convertible preference shares of ₹100 (each convertible into 2 equity shares); 2,00,000 employee options with exercise price

₹20; average market price ₹25. Compute basic and diluted EPS under Ind AS 33, ranking the potential shares from the most dilutive.

(b) (7 marks). Compute cash from operating activities: profit before tax ₹4,50,000 after depreciation ₹80,000, goodwill written off ₹20,000, profit on sale of investments ₹15,000 and interest on loans ₹30,000. Receivables increased ₹40,000; inventory decreased ₹25,000; trade payables decreased ₹18,000; outstanding expenses increased ₹5,000; income tax paid ₹1,10,000.

Q6 (a) (7 marks). What is internal check? State its objectives and the general considerations in framing an internal check system.

(b) (7 marks). State the provisions on the rotation of auditors under section 139(2) and the cooling-off period.

Q7 (a) (7 marks). Distinguish between an audit report and an audit certificate.

(b) (7 marks). Describe the constitution, functions and powers of the National Financial Reporting Authority (NFRA).

Q8 (a) (7 marks). What points will you consider in the audit of a co-operative society?

(b) (7 marks). Explain the procedure for the appointment of the first auditor and of subsequent auditors of a non-government company.

Model Answers – Section B

SOLUTION Q2(a) Kirti Ltd. – forfeiture and re-issue

Pro-rata: 28,000 applicants get 20,000 shares (7 : 5). Excess application money 8,000 × 4 = 32,000 is adjusted against allotment. Mr. P applied 1,400 → allotted 1,000; paid 1,400 × 4 = **₹5,600**; excess 400 × 4 = 1,600.

Allotment unpaid by P = 1,000 × 6 − 1,600 = **₹4,400**; call unpaid = 1,000 × 5 = **₹5,000**.

Collected on allotment = 1,20,000 − 32,000 − 4,400 = **₹83,600**; on call = 1,00,000 − 5,000 = **₹95,000**.

Journal entry	Dr ₹	Cr ₹
Equity share capital (1,000 × 10)	10,000	
Securities premium (1,000 × 5, not received)	5,000	
To Equity share allotment		4,400
To Equity share first and final call		5,000
To Forfeited shares		5,600
Bank (600 × 8)	4,800	
Forfeited shares (discount 600 × 2)	1,200	
To Equity share capital		6,000
Forfeited shares (5,600 × 600/1,000 − 1,200)	2,160	
To Capital reserve		2,160

Balance of forfeited shares ₹2,240 relates to the 400 shares not yet re-issued.

SOLUTION Q2(b) Delta Ltd. – underwriters' liability (shares)

Particulars	X	Y	Z	Total
Gross liability (50 : 30 : 20)	1,00,000	60,000	40,000	2,00,000
Less: unmarked applications (20,000 in 50 : 30 : 20)	(10,000)	(6,000)	(4,000)	(20,000)
Less: marked applications	(50,000)	(40,000)	(30,000)	(1,20,000)
Less: firm underwriting	(10,000)	(6,000)	(4,000)	(20,000)
Net liability	**30,000**	**8,000**	**2,000**	**40,000**
Add: firm underwriting	10,000	6,000	4,000	20,000
Total shares to be taken up	**40,000**	**14,000**	**6,000**	**60,000**
Commission 2.5% × ₹10 on gross liability (₹)	25,000	15,000	10,000	50,000

Unmarked = 1,60,000 − 20,000 firm − 1,20,000 marked = 20,000. Check: net liability 40,000 = 2,00,000 − 1,60,000 ✓.

SOLUTION **Q3 Alpha Ltd. – Statement of Profit and Loss for 2025-26**

Particulars	₹
Revenue from operations	40,00,000
Other income (interest)	30,000
Total income	**40,30,000**
Purchases	24,00,000
Changes in inventories (3,00,000 − 3,60,000)	(60,000)
Employee benefits expense (wages 3,50,000 + salaries 2,40,000)	5,90,000
Finance costs (debenture interest 20,000 + 20,000)	40,000
Depreciation (10,000 + 90,000 + 10,000)	1,10,000
Other expenses (rent 60,000 + general 1,20,000)	1,80,000
Total expenses	**32,60,000**
Profit before tax	7,70,000
Tax expense (30%)	2,31,000
Profit for the year	**5,39,000**
EPS (5,39,000 ÷ 1,00,000)	₹5.39

SOLUTION **Q3 Alpha Ltd. – Balance Sheet as at 31 March 2026**

Particulars	₹
Share capital – 1,00,000 equity shares of ₹10	10,00,000
Reserves and surplus (Note 1)	9,39,000
Long-term borrowings – 10% debentures	4,00,000
Short-term borrowings – bank loan	1,00,000
Trade payables	3,20,000
Other current liabilities – interest accrued on debentures	20,000
Short-term provisions – provision for tax	2,31,000
Total equity and liabilities	**30,10,000**
PPE: land and buildings 8,90,000 + plant 5,10,000 + furniture 90,000	14,90,000
Non-current investments	2,50,000
Inventories	3,60,000
Trade receivables	4,80,000
Cash and cash equivalents	4,30,000
Total assets	**30,10,000**

Note 1 – Reserves and surplus: securities premium 1,00,000; general reserve 2,00,000 + 53,900 = 2,53,900; surplus = 1,50,000 + 5,39,000 − interim dividend 50,000 − transfer 53,900 = 5,85,100. **Total ₹9,39,000.**

SOLUTION Q4(a) Bharat Bank Ltd. – provision on advances

Category	Amount (₹ lakh)	Rate	Provision (₹ lakh)
Standard	200	0.4%	0.80
Sub-standard	20	15%	3.00
Doubtful up to 1 year – secured 6 / unsecured 2	8	25% / 100%	1.50 + 2.00 = 3.50
Doubtful 1–3 years – secured 4 / unsecured 1	5	40% / 100%	1.60 + 1.00 = 2.60
Doubtful more than 3 years	3	100%	3.00
Loss	1.5	100%	1.50
Total			**14.40**

Provision required **₹14,40,000**. Standard-asset provision is shown under other liabilities, not netted from advances.

SOLUTION Q4(b) Jeevan Life – fund and surplus

Fund at 31 March 2026 = 60,00,000 + 12,00,000 + 3,00,000 − 5,00,000 − 80,000 − 1,20,000 − 40,000 = **₹67,60,000**.

Valuation balance sheet	₹
Life assurance fund	67,60,000
Less: net liability (actuarial)	58,00,000
Surplus	9,60,000
Add: interim bonus paid	60,000
Divisible surplus	**10,20,000**
Policyholders 95% = 9,69,000; less interim bonus 60,000 → bonus now payable	9,09,000
Shareholders 5% → transferred to shareholders' account	51,000

SOLUTION Q5(a) Basic and diluted EPS

Basic EPS = (60,00,000 − preference dividend 5,00,000) ÷ 20,00,000 = **₹2.75**.

Potential shares	Increase in earnings ₹	Increase in shares	Earnings per incremental share
Options: 2,00,000 × (25 − 20) ÷ 25 = 40,000 free shares	Nil	40,000	Nil (most dilutive)
Convertible preference (50,000 × 2)	5,00,000	1,00,000	₹5.00

Step	Earnings ₹	Shares	EPS ₹
Basic	55,00,000	20,00,000	2.75
Add options	55,00,000	20,40,000	2.70 (dilutive)
Add preference shares	60,00,000	21,40,000	2.80 (anti-dilutive – ignore)

Diluted EPS = ₹2.70; the convertible preference shares are anti-dilutive.

SOLUTION Q5(b) Cash from operating activities

Particulars	₹
Profit before tax	4,50,000
Add: depreciation 80,000 + goodwill written off 20,000 + interest 30,000	1,30,000
Less: profit on sale of investments	(15,000)
Operating profit before working-capital changes	5,65,000
Receivables (40,000) + inventory 25,000 + payables (18,000) + outstanding expenses 5,000	(28,000)
Cash generated from operations	5,37,000
Less: income tax paid	(1,10,000)
Net cash from operating activities	**4,27,000**

SOLUTION Q6(a) Internal check

Meaning: arrangement of duties so that the work of one person is automatically checked by another; no one person handles a transaction from start to finish.

Objectives: detect and prevent errors and frauds early; fix responsibility; ensure transactions are properly authorised and recorded; protect assets; raise efficiency through division of work; give reliable accounts quickly.

General considerations: clear division of duties; rotation of staff and compulsory leave; no one person to have independent control of a transaction; physical and accounting controls over assets; use of mechanical/system checks (control totals, sequence checks); authorised signatories and limits; periodic review of the system; cost of control must not exceed its benefit.

SOLUTION Q6(b) Rotation of auditors – s.139(2)

- Applies to **listed companies** and prescribed classes: unlisted public companies with paid-up capital ≥ ₹10 crore, private companies with paid-up capital ≥ ₹50 crore, and companies with public borrowings ≥ ₹50 crore (Rule 5).
- **Individual** auditor: not more than **one term of 5 consecutive years**.
- **Audit firm**: not more than **two terms of 5 consecutive years**.
- **Cooling-off period:** 5 years – the individual or firm cannot be reappointed during this time; a firm with a common partner is also barred.
- Members may decide that the auditing partner and team be rotated at such intervals as they decide (s.139(3)).
- Existing companies were given a 3-year transition from 1 April 2014.

SOLUTION Q7(a) Audit report vs audit certificate

Basis	Audit report	Audit certificate
Meaning	Expression of **opinion** on the truth and fairness of financial statements	**Confirmation of accuracy** of specific facts or figures
Degree of assurance	Reasonable assurance – based on judgement and tests	Higher certainty – based on verifiable facts
Subject matter	Complete financial statements	Specific items – stock, export, utilisation of funds
Responsibility	Auditor is liable if negligent in forming the opinion	Auditor vouches for exactness – stricter liability
Example	Statutory audit report under s.143	Certificate of utilisation of grant, net-worth certificate

SOLUTION Q7(b) NFRA – s.132

Constitution: a chairperson (a person of eminence with expertise in accountancy, auditing, finance or law), up to 3 full-time members and 9 part-time members, appointed by the Central Government; HQ at New Delhi.

Functions: recommend accounting and auditing policies and standards to the Central Government; monitor and enforce compliance with them; oversee the quality of service of the professions connected with ensuring compliance; other prescribed functions.

Powers: investigate professional or other misconduct by auditors of listed companies, large unlisted companies and other prescribed entities; has the powers of a civil court; may impose a penalty of not less than ₹1 lakh and up to 5 times the fees (individual) or ₹5 lakh and up to 10 times the fees (firm), and debar from practice for 6 months to 10 years. Where NFRA has started an investigation, no other institute or body can proceed against the same matter.

SOLUTION Q8(a) Audit of a co-operative society

- Governing law: the State Co-operative Societies Act and rules, or the **Multi-State Co-operative Societies Act, 2002**; bye-laws of the society.
- Auditor from the panel approved by the Registrar or as the Act provides; report to the Registrar and members.
- Verify that profits are appropriated as the Act requires – **statutory reserve fund** (commonly at least 25% of net profit – check the State Act VERIFY), education fund contribution, dividend within the legal limit.
- Loans and advances to members – within bye-law limits, proper security, overdue and doubtful debts classified.
- Transactions with members of the managing committee – check for conflicts of interest.
- Investments only in permitted securities; government grants and subsidies used for purposes given.
- Prepare the special report covering overdue debts, irregularities, losses and **audit classification** of the society (A, B, C, D).

SOLUTION Q8(b) Appointment of auditors – non-government company

- **First auditor – s.139(6):** appointed by the **Board within 30 days** of registration; if the Board fails, members in an **EGM within 90 days**. Holds office till the end of the first AGM.
- **Subsequent auditors – s.139(1):** appointed by members at the **first AGM** to hold office from that AGM to the end of the **sixth AGM** (5-year term), subject to rotation rules; written consent and eligibility certificate obtained.
- Company informs the auditor and files **ADT-1** with the Registrar within **15 days** of the meeting.
- **Casual vacancy – s.139(8):** Board fills within 30 days; if caused by resignation, the appointment must be approved by members within 3 months.
- If no auditor is appointed or reappointed at the AGM, the existing auditor continues (s.139(10)).