Skillshort

Self-Study Preparation Pack

CMA INTERMEDIATE

Paper 10: Corporate Accounting and Auditing (CAA)

Mock Test 2 – 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. After a buy-back, the ratio of the aggregate of secured and unsecured debts to paid-up capital and free reserves (standalone) must not exceed

(a) 1 : 1
(b) 2 : 1
(c) 3 : 1
(d) 4 : 1

2. A company buys back 10,000 shares of ₹10 at ₹18 out of free reserves without any fresh issue. The transfer to capital redemption reserve is

(a) ₹1,80,000
(b) ₹80,000
(c) ₹1,00,000
(d) Nil

3. A company may issue sweat equity shares only after it has completed at least

(a) 6 months from commencement of business
(b) 1 year from commencement of business
(c) 2 years from commencement of business
(d) 3 years from commencement of business

4. Under Schedule III, "trade payables" must be shown separately for

(a) Related parties and others
(b) Micro and small enterprises and others
(c) Secured and unsecured
(d) Domestic and foreign

5. For a finance company, interest received on loans given is classified as

(a) Operating activity
(b) Investing activity
(c) Financing activity
(d) Cash equivalent

6. Bills of ₹7,30,000 were discounted at 12% p.a.; on 31 March, 50 days remain to maturity. Rebate on bills discounted is

(a) ₹10,000
(b) ₹12,000
(c) ₹14,600
(d) ₹6,000

7. An advance is classified as a non-performing asset when interest or instalment remains overdue for more than

(a) 30 days
(b) 60 days
(c) 90 days
(d) 180 days

8. Which of the following is a short-term employee benefit under Ind AS 19?

(a) Gratuity
(b) Pension
(c) Paid annual leave expected to be availed within 12 months
(d) Post-retirement medical cover

9. A company declares a dividend after the reporting date but before the financial statements are approved. Under Ind AS 10 it is

(a) An adjusting event – recognise a liability
(b) A non-adjusting event – disclose in the notes
(c) Ignored
(d) Recognised as an expense

10. The Standard on Auditing dealing with the auditor's opinion and the form of report on financial statements is

(a) SA 230 (b) SA 600
(c) SA 700 (d) SA 705

11. Under SA 600, when the principal auditor uses the work of another auditor, the principal auditor

(a) Is relieved of responsibility for that part
(b) Remains solely responsible for his opinion, unless law permits otherwise
(c) Must re-audit the component
(d) Must attach the other auditor's report

12. CARO 2020 does not apply to

(a) A listed manufacturing company
(b) A one person company
(c) A public trading company
(d) A subsidiary of a public company

13. Fraud of ₹1 crore or more by officers or employees is reported by the auditor to the Central Government in Form

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

14. The audit committee of a listed company must have at least

(a) 2 directors, both independent
(b) 3 directors, majority independent
(c) 3 directors, all independent
(d) 5 directors, majority independent

15. Which of the following is not a benefit of strong internal financial controls?

(a) Orderly and efficient conduct of business
(b) Prevention and detection of frauds
(c) A guarantee that the financial statements are free from all misstatement
(d) Timely preparation of reliable financial information

Section A – Answer key with reasons

Q	Ans	Explanation / working
1	(b)	s.68(2)(d): debt-equity ratio after buy-back not more than **2 : 1** (a higher ratio may be notified for a class of companies).
2	(c)	CRR = **nominal value** of shares bought back out of free reserves = 10,000 × 10 = **₹1,00,000**.
3	(b)	Rule 8 of the Share Capital and Debentures Rules: at least **one year** from commencement of business.
4	(b)	Division I requires the split **MSE / others**, with an ageing schedule.
5	(a)	Lending is the **principal revenue-producing activity** of a finance company, so interest received is operating.
6	(b)	7,30,000 × 12% × 50 ÷ 365 = **₹12,000**.
7	(c)	RBI's IRAC norms – overdue for more than **90 days**.
8	(c)	Paid absences settled within 12 months are **short-term**; (a), (b) and (d) are post-employment benefits.
9	(b)	Dividends declared after the reporting period are **non-adjusting**; no liability exists at the reporting date, so disclose only.
10	(c)	**SA 700 (Revised)** – Forming an Opinion and Reporting on Financial Statements; SA 705 covers modified opinions.
11	(b)	The principal auditor bears **sole responsibility** for the opinion; reliance does not shift it, unless a statute allows.
12	(b)	Exempt: banking, insurance, s.8 companies, **one person companies**, small companies and specified private companies.
13	(d)	s.143(12) with Rule 13 – **ADT-4**. ADT-1 is appointment, ADT-2 removal application, ADT-3 resignation.
14	(b)	s.177(2): minimum **3 directors with independent directors forming a majority**.

Q	Ans	Explanation / working
15	(c)	Internal controls give only **reasonable**, never absolute, assurance – inherent limitations remain.

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). Sigma Ltd. has: equity share capital ₹30,00,000 (3,00,000 shares of ₹10); securities premium ₹6,00,000; general reserve ₹12,00,000; surplus in P&L ₹4,00,000; 12% debentures ₹40,00,000 and a term loan ₹50,00,000. It proposes a buy-back at ₹20 per share. Find the maximum number of shares it can buy back under the share-limit, resources and debt-equity tests, and pass the entries if the maximum is bought back out of free reserves and securities premium.

(b) (7 marks). On 1 January 2026 Sigma Ltd. bought 1,000 of its own 12% debentures of ₹100 at ₹98 cum-interest (interest payable 30 September and 31 March) and cancelled them at once. On the same day 2,000 15% convertible debentures of ₹100 were converted into equity shares of ₹10 at ₹25 per share. Pass journal entries.

Q3 (14 marks). Beta Ltd.'s balances on 31 March 2026 (₹): equity share capital (1,50,000 shares of ₹10) 15,00,000; securities premium 2,00,000; general reserve 3,00,000; surplus 1 April 2025 1,20,000; 12% term loan 6,00,000 (₹1,50,000 repayable by 31 March 2027); trade payables 4,50,000 (MSE ₹1,00,000); provision for gratuity 1,80,000; sales 60,00,000; provision for doubtful debts 20,000; sales returns 1,00,000; purchases 36,00,000; opening inventory 5,00,000; carriage inward 50,000; wages 4,00,000; salaries 3,60,000; power 1,20,000; interest on term loan 72,000; advertisement 80,000; audit fees 30,000; buildings 12,00,000; machinery 8,00,000; vehicles 2,00,000; capital work-in-progress 1,50,000; trade receivables 6,40,000; cash in hand 1,10,000; bank 4,58,000; advance tax 3,50,000; final dividend for 2024-25 paid 1,50,000.

Adjustments: closing inventory ₹6,20,000; depreciation on WDV – buildings 5%, machinery 15%, vehicles 20%; tax at 25% of profit before tax; transfer ₹50,000 to general reserve. Prepare the Statement of Profit and Loss and the Balance Sheet as per Schedule III.

Q4 (a) (7 marks). Urja Power Ltd. (an electricity company keeping accounts on the replacement basis) rebuilt a generating unit at a cost of ₹50,00,000. The old unit cost ₹20,00,000; the cost of rebuilding it at current prices with the old capacity is ₹35,00,000. Old materials recovered were partly sold for ₹1,00,000 and partly (worth ₹50,000) used in the new unit; the ₹50,00,000 includes these materials. Compute the amount to be capitalised and the amount charged to revenue, and pass the journal entries.

(b) (7 marks). Pragati Bank Ltd. received ₹1,20,000 as discount on bills during 2025-26. Bills outstanding on 31 March 2026: ₹2,00,000 at 12% due 15 May 2026; ₹1,46,000 at 10% due 30 April 2026; ₹5,00,000 at 11% due 19 June 2026. Compute the rebate on bills discounted, pass the entry and show the discount income for the year.

Q5 (a) (7 marks). Sun Ltd. has 100 employees, each entitled to 20 days' paid leave a year; unused leave may be carried forward for one year, and leave taken is first set against the current year's entitlement (LIFO). At 31 March 2026 each employee has 2 unused days on average. It is expected that in 2026-27, 92 employees will take no more than 20 days and the other 8 will take 21.5 days on average. Average daily salary is ₹2,000. Compute the liability for accumulating compensated absences under Ind AS 19 and explain the treatment.

(b) (7 marks). From the following, compute cash flows from investing and financing activities for 2025-26: PPE at cost ₹10,00,000 (opening) and ₹14,00,000 (closing); accumulated depreciation ₹3,00,000 and ₹3,60,000. A machine costing ₹1,00,000 (accumulated depreciation ₹60,000) was sold for ₹30,000. Investments fell from ₹2,00,000 to ₹1,50,000; those sold earned a profit of ₹10,000. Share capital rose from ₹5,00,000 to ₹7,00,000; 10% debentures fell from ₹4,00,000 to ₹3,00,000 (redeemed at par). Dividend paid ₹80,000 and debenture interest paid ₹40,000.

Q6 (a) (7 marks). Explain the components of internal control under SA 315.

(b) (7 marks). Which companies must have a secretarial audit under section 204? Who conducts it, and how is the report dealt with?

Q7 (a) (7 marks). State the applicability of CARO 2020 and the companies exempted from it.

(b) (7 marks). Explain the appointment of a cost auditor and the forms involved under the Companies (Cost Records and Audit) Rules, 2014.

Q8 (a) (7 marks). What special points will you check in the audit of an educational institution?

(b) (7 marks). Which companies must constitute an audit committee? State its composition and main functions under section 177.

Model Answers – Section B

SOLUTION Q2(a) Sigma Ltd. – maximum buy-back

Paid-up capital + free reserves (including securities premium) = 30 + 6 + 12 + 4 = ₹52,00,000.

Test	Working	Maximum shares
Share limit – 25% of equity shares	25% × 3,00,000	75,000
Resources – 25% of capital + free reserves	25% × 52,00,000 = 13,00,000 ÷ 20	65,000
Debt-equity – debt ₹90 lakh ≤ 2 × (52 lakh – 20n)	52,00,000 – 20n ≥ 45,00,000 → n ≤ 35,000	**35,000**

Maximum buy-back = **35,000 shares** costing ₹7,00,000 (the debt-equity test binds).

Journal entry	Dr ₹	Cr ₹
Equity share buy-back A/c To Bank	7,00,000	7,00,000
Equity share capital (35,000 × 10)	3,50,000	
Securities premium (35,000 × 10)	3,50,000	
To Equity share buy-back A/c		7,00,000
General reserve To Capital redemption reserve	3,50,000	3,50,000

CRR equals the nominal value bought back out of free reserves (s.69). Check: post buy-back equity 45,00,000; debt 90,00,000 = 2 : 1 ✓.

SOLUTION Q2(b) Own debentures and conversion

Interest accrued from 1 October to 1 January = 1,000 × 100 × 12% × 3/12 = ₹3,000; ex-interest price = 98,000 – 3,000 = ₹95,000.

Journal entry	Dr ₹	Cr ₹
Own debentures 95,000 + Debenture interest 3,000	98,000	
To Bank		98,000
12% Debentures (face value)	1,00,000	
To Own debentures		95,000
To Capital reserve (profit on cancellation)		5,000
15% Convertible debentures	2,00,000	
To Debentureholders		2,00,000
Debentureholders (8,000 shares at ₹25)	2,00,000	
To Equity share capital (8,000 × 10)		80,000
To Securities premium (8,000 × 15)		1,20,000

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

Particulars	₹
Revenue from operations (60,00,000 – returns 1,00,000)	59,00,000
Purchases 36,00,000 + carriage inward 50,000	36,50,000
Changes in inventories (5,00,000 − 6,20,000)	(1,20,000)
Employee benefits expense (wages 4,00,000 + salaries 3,60,000)	7,60,000
Finance costs (term-loan interest)	72,000
Depreciation (60,000 + 1,20,000 + 40,000)	2,20,000
Other expenses (power 1,20,000 + advertisement 80,000 + audit fees 30,000)	2,30,000
Total expenses	**48,12,000**
Profit before tax	10,88,000
Tax expense (25%)	2,72,000
Profit for the year	**8,16,000**
EPS (8,16,000 ÷ 1,50,000)	₹5.44

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

Particulars	₹
Share capital	15,00,000
Reserves and surplus (Note 1)	12,86,000
Long-term borrowings – term loan (6,00,000 − 1,50,000)	4,50,000
Long-term provisions – gratuity	1,80,000
Short-term borrowings – current maturities of term loan	1,50,000
Trade payables – MSE 1,00,000; others 3,50,000	4,50,000
Total equity and liabilities	**40,16,000**
PPE (buildings 11,40,000 + machinery 6,80,000 + vehicles 1,60,000)	19,80,000
Capital work-in-progress	1,50,000
Inventories	6,20,000
Trade receivables (6,40,000 − provision 20,000)	6,20,000
Cash and cash equivalents (1,10,000 + 4,58,000)	5,68,000
Other current assets – advance tax 3,50,000 less provision 2,72,000	78,000
Total assets	**40,16,000**

Note 1: securities premium 2,00,000; general reserve 3,00,000 + 50,000 = 3,50,000; surplus = 1,20,000 + 8,16,000 − dividend 1,50,000 − transfer 50,000 = 7,36,000. **Total ₹12,86,000.** Advance tax and provision for tax are offset because they relate to the same tax authority and year.

SOLUTION Q4(a) Urja Power Ltd. – replacement accounting

- **Capitalised (addition)** = cost of new unit − current cost of replacing the old unit = 50,00,000 − 35,00,000 = **₹15,00,000**.
- **Charged to revenue (replacement)** = 35,00,000 − old materials sold 1,00,000 − old materials used 50,000 = **₹33,50,000**.

Journal entry	Dr ₹	Cr ₹
Generating unit (capital) A/c – addition	15,00,000	
Replacement A/c – current cost of old capacity	35,00,000	
To Bank		49,50,000
To Old materials (used in new unit)		50,000
Bank To Replacement A/c (old materials sold)	1,00,000	1,00,000
Old materials To Replacement A/c (recovered and reused)	50,000	50,000

Net charge in the replacement account = 35,00,000 − 1,00,000 − 50,000 = ₹33,50,000, transferred to the revenue account.

The original cost of ₹20,00,000 stays in the capital account; the replacement charge goes to the revenue account.

SOLUTION Q4(b) Pragati Bank Ltd. – rebate on bills discounted

Bill	Days after 31 March	Working	Rebate ₹
₹2,00,000 at 12% due 15 May	45	2,00,000 × 12% × 45/365	2,959
₹1,46,000 at 10% due 30 April	30	1,46,000 × 10% × 30/365	1,200
₹5,00,000 at 11% due 19 June	80	5,00,000 × 11% × 80/365	12,055
Total			**16,214**

Entry: Interest and discount A/c Dr 16,214 To Rebate on bills discounted 16,214. Discount income for the year = 1,20,000 − 16,214 = **₹1,03,786**. The rebate is shown under "Other liabilities and provisions" and reversed on 1 April.

SOLUTION Q5(a) Sun Ltd. – accumulating compensated absences

- Under LIFO, carried-forward days are used only after the current 20 days are exhausted.
- 92 employees use ≤ 20 days → their carried-forward leave lapses; no cost.
- 8 employees use 21.5 days → 1.5 days each come from the carried-forward balance. Expected additional cost = 8 × 1.5 days × ₹2,000 = **₹24,000**.
- Recognise a **liability and expense of ₹24,000** at 31 March 2026: accumulating absences are recognised as employees render service, measured at the additional amount expected to be paid because of unused entitlement.

SOLUTION Q5(b) Investing and financing cash flows

Working: PPE purchased = 14,00,000 − 10,00,000 + 1,00,000 = 5,00,000. Investments sold at book value 50,000 + profit 10,000 = 60,000. (Depreciation for the year 1,20,000 and loss on sale 10,000 belong to operating adjustments.)

Investing activities	₹
Purchase of PPE	(5,00,000)
Sale of machine	30,000
Sale of investments	60,000
Net cash used in investing	**(4,10,000)**

Financing activities	₹
Issue of shares	2,00,000
Redemption of debentures	(1,00,000)
Dividend paid	(80,000)
Debenture interest paid	(40,000)
Net cash used in financing	**(20,000)**

SOLUTION Q6(a) Components of internal control – SA 315

1. **Control environment** – governance and management attitude, integrity and ethical values, commitment to competence, organisational structure, HR policies.
2. **Entity's risk assessment process** – identifying business risks relevant to financial reporting, estimating their significance and deciding on action.
3. **Process to monitor the system of internal control** – ongoing evaluations, internal audit, acting on deficiencies.
4. **Information system and communication** – how transactions are initiated, recorded, processed and reported; communication of roles and responsibilities.
5. **Control activities** – authorisation, performance reviews, information-processing controls (general and application IT controls), physical controls and segregation of duties.

The auditor obtains an understanding of each component to assess the risk of material misstatement and design further audit procedures.

SOLUTION Q6(b) Secretarial audit – s.204

- **Applicable to:** every **listed company**; every public company with paid-up capital ≥ **₹50 crore** or turnover ≥ **₹250 crore**; every company with outstanding loans or borrowings from banks or public financial institutions ≥ **₹100 crore** (Rule 9).
- **Conducted by:** a **Company Secretary in practice**, appointed by the Board.
- **Report:** in **Form MR-3**, annexed to the **Board's report**; the Board explains in its report any qualification or adverse remark.
- Company gives all assistance and facilities to the secretarial auditor; contravention attracts penalty under s.204(4).
- Listed entities and their material unlisted subsidiaries also follow the SEBI LODR requirements for secretarial audit and annual secretarial compliance report.

SOLUTION Q7(a) CARO 2020 – applicability and exemptions

Applies to every company, including foreign companies, except those exempted. It does not apply to the auditor's report on consolidated financial statements, except clause (xxi).

Exempted:

- Banking companies, insurance companies and section 8 companies.
- One person companies and small companies.
- A private company (not a subsidiary or holding company of a public company) whose paid-up capital and reserves and surplus do not exceed ₹1 crore, total borrowings from banks or financial institutions do not exceed ₹1 crore at any time in the year, and total revenue does not exceed ₹10 crore.

SOLUTION Q7(b) Appointment of a cost auditor

- **Who:** a cost accountant in practice or a firm of cost accountants, appointed by the **Board on the recommendation of the audit committee** (where one exists); remuneration ratified by the members.
- **When:** within **180 days** from the commencement of the financial year.
- **CRA-2:** company informs the Central Government of the appointment within 30 days of the Board meeting or 180 days from the start of the year, whichever is earlier.
- **CRA-1:** the cost records to be maintained.
- **CRA-3:** cost audit report submitted by the cost auditor to the Board within **180 days** from the close of the financial year.
- **CRA-4:** company files the report with the Central Government (XBRL) within **30 days** of receiving it.
- Cost auditor cannot be the statutory auditor of the company; a casual vacancy is filled by the Board within 30 days.

SOLUTION Q8(a) Audit of an educational institution

- Study the trust deed or constitution, recognition and affiliation conditions, and minutes of the governing body.
- **Fee receipts:** check against the students' register, fee schedule and concessions approved; examine arrears and refunds.
- Admission fees, caution deposits (refundable – shown as liabilities), hostel and transport receipts.
- **Grants:** verify receipts and use for the stated purpose; utilisation certificates; unspent balances.
- Scholarships and freeships – sanction and disbursement to eligible students.
- Salaries – appointment letters, attendance, statutory deductions; vouch payments to visiting faculty.
- Library books, laboratory equipment and fixed assets – registers and physical verification.
- Investments of endowment funds in permitted securities; FCRA compliance for foreign contributions.

SOLUTION Q8(b) Audit committee – s.177

- **Required for:** every listed company; and public companies with paid-up capital ≥ ₹10 crore, or turnover ≥ ₹100 crore, or aggregate outstanding loans, borrowings, debentures or deposits ≥ ₹50 crore (Rule 6).
- **Composition:** at least **3 directors**, with **independent directors forming a majority**; the majority, including the chairperson, must be able to read and understand financial statements.
- **Functions:** recommend the appointment, remuneration and terms of the auditors; review auditor independence and the effectiveness of the audit; examine the financial statements and the auditor's report; approve related-party transactions and later modifications; scrutinise inter-corporate loans and investments; value undertakings or assets where needed; evaluate internal financial controls and risk management; monitor the end use of funds raised through public offers.
- Operates the **vigil mechanism** for directors and employees to report genuine concerns.