Skillshort

Self-Study Preparation Pack

CMA INTERMEDIATE

Paper 10: Corporate Accounting and Auditing (CAA)

Chapter-wise Practice Questions with Answers

For the December 2026 term · 50 MCQs (5 sets) + 10 descriptive questions with solutions · Original Skillshort questions · Law as amended up to 31 May 2026

50 MCQs with key | 10 descriptive with solutions | Numbers verified in Python | Solve after each chapter

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This subject pack has 6 parts

1 Chapter-wise notes | 2 Important topics & weightage | 3 Past papers: trends & links

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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.

Part A – Chapter-wise MCQs

Each set is followed by its answer key. Attempt a set in 20 minutes after finishing the related chapters.

Set 1 – Chapters 1–2 (Shares, debentures and buy-back)

1. The maximum amount of share capital a company can issue under its memorandum is its

(a) Issued capital
(b) Subscribed capital
(c) Authorised capital
(d) Called-up capital

2. Shares issued at a price equal to their face value are said to be issued

(a) At a premium
(b) At par
(c) At a discount
(d) As sweat equity

3. Buy-back can be made out of each of the following except

(a) Free reserves
(b) Securities premium
(c) Proceeds of an earlier issue of the same kind of shares
(d) Proceeds of an issue of a different kind of shares

4. After a buy-back, the company cannot make a further issue of the same kind of shares (other than bonus or conversion) for

(a) 6 months
(b) 1 year
(c) 2 years
(d) 3 years

5. Two buy-back offers must be separated by at least

(a) 3 months
(b) 6 months
(c) 1 year
(d) 2 years

6. A share of ₹10 on which ₹6 has been received is forfeited and re-issued at ₹9 fully paid. Capital reserve per share is

(a) ₹6
(b) ₹5
(c) ₹1
(d) ₹3

7. Preference shares can be redeemed only if they are

(a) Fully paid
(b) Partly paid
(c) Convertible
(d) Listed

8. Under s.55, when preference shares are redeemed out of profits, an amount equal to the nominal value is transferred to

(a) General reserve
(b) Securities premium
(c) Capital redemption reserve
(d) Capital reserve

9. Underwriting commission on debentures cannot exceed

(a) 1%
(b) 2.5%
(c) 5%
(d) 10%

10. Profit on cancellation of own debentures is credited to

(a) Statement of Profit and Loss
(b) Capital reserve
(c) Securities premium
(d) General reserve

Set 1 – Answer key

Q	Ans	Explanation / working
1	(c)	**Authorised (nominal) capital** is the ceiling stated in the capital clause of the memorandum.
2	(b)	Issue price = face value → issue **at par**.
3	(c)	s.68(1) proviso: no buy-back out of the proceeds of an earlier issue of the **same kind** of shares.
4	(a)	s.68(8): no further issue of the same kind within **six months** (the SEBI Buy-back Regulations prescribe one year for listed companies).
5	(c)	s.68(2) proviso: no offer within **one year** of the closure of the preceding offer.
6	(b)	Forfeited ₹6 – discount ₹1 = **₹5**.
7	(a)	s.55(2)(b): only **fully paid** preference shares can be redeemed.
8	(c)	**CRR** – usable only for issuing fully paid bonus shares.
9	(b)	Rule 13: **2.5%** of the issue price for debentures (5% for shares).
10	(b)	It is a capital profit – **capital reserve**.

Set 2 – Chapters 3–4 (Schedule III and cash flow statements)

11. Under Schedule III, capital work-in-progress is shown under

(a) Current assets
(b) Non-current assets – PPE and intangible assets
(c) Other non-current assets
(d) Reserves and surplus

12. Trade receivables outstanding for more than six months are required to be disclosed through

(a) An ageing schedule
(b) The cash flow statement
(c) The directors' report only
(d) No disclosure

13. Contingent liabilities in the notes are classified as claims not acknowledged as debts, guarantees and

(a) Other money for which the company is contingently liable
(b) Proposed dividend
(c) Trade payables
(d) Unpaid dividend

14. A loan is generally classified as a term loan if its repayment period is beyond

(a) 3 months
(b) 6 months
(c) 1 year
(d) 5 years

15. Unpaid dividend is shown in the balance sheet as

(a) Short-term provision
(b) Other current liability
(c) Reserves and surplus
(d) Trade payable

16. The indirect method of preparing cash flow from operating activities starts with

(a) Cash received from customers
(b) Net profit before tax and extraordinary items
(c) Closing cash balance
(d) Sales

17. For a manufacturing company, dividend received on investments is

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

18. Purchase of a 2-month treasury bill is treated as

(a) Investing outflow
(b) Financing outflow
(c) Cash equivalent – no cash flow
(d) Operating outflow

19. Depreciation ₹50,000, profit on sale of an asset ₹10,000 and net profit ₹2,00,000. Operating profit before working-capital changes is

(a) ₹2,60,000
(b) ₹2,40,000
(c) ₹2,50,000
(d) ₹1,60,000

20. Increase in trade payables during the year is, in the indirect method,

(a) Deducted
(b) Added
(c) Ignored
(d) Shown under financing

Set 2 – Answer key

Q	Ans	Explanation / working
11	(b)	CWIP is a sub-head of **property, plant and equipment and intangible assets**.
12	(a)	Division I requires a **trade receivables ageing schedule** (less than 6 months, 6 months–1 year, 1–2 years, 2–3 years, more than 3 years).
13	(a)	The three classes are claims not acknowledged as debt, **guarantees** and **other money for which the company is contingently liable**.
14	(c)	Term loans are repayable after more than **one year**.
15	(b)	**Other current liabilities** (and the bank balance in the unpaid dividend account under cash and bank).
16	(b)	It begins with **profit before tax** and adjusts non-cash and non-operating items.
17	(b)	For a non-financial company, interest and dividend received are **investing** inflows.
18	(c)	Investments maturing within **3 months** of acquisition are cash equivalents.
19	(b)	2,00,000 + 50,000 − 10,000 = **₹2,40,000**.
20	(b)	A rise in a current liability means cash was saved – **added**.

Set 3 – Chapters 5–6 (Special companies and Ind AS)

21. Bills of ₹1,46,000 discounted at 10% have 73 days to run on 31 March. Rebate on bills discounted is

(a) ₹2,920
(b) ₹1,460
(c) ₹2,000
(d) ₹3,650

22. Provision on a doubtful advance (1–3 years) for its secured portion is

(a) 15%
(b) 25%
(c) 40%
(d) 100%

23. Which principle requires the insured to disclose all material facts to the insurer?

(a) Indemnity
(b) Utmost good faith
(c) Subrogation
(d) Contribution

24. In a life insurance company, the surplus shown by the valuation balance sheet is allocated mainly to

(a) Policyholders
(b) Agents
(c) Reinsurers
(d) Government

25. An electricity company's depreciation on assets is generally calculated at rates

(a) Chosen by the auditor
(b) Notified by the regulatory commission (CERC/SERC)
(c) Fixed at 10% for all assets
(d) Under the Income-tax Act

26. Ind AS 19 recognises how many categories of employee benefits?

(a) Two
(b) Three
(c) Four
(d) Five

27. Diluted EPS takes into account

(a) Only issued equity shares
(b) All dilutive potential equity shares
(c) Only bonus shares
(d) Only preference shares

28. Which of the following is an adjusting event under Ind AS 10?

(a) Fall in the market value of investments after the year end
(b) Settlement after the year end of a court case that existed at the year end
(c) Dividend declared after the year end
(d) Fire destroying a plant after the year end

29. Ind AS 37 deals with

(a) Revenue
(b) Provisions, contingent liabilities and contingent assets
(c) Leases
(d) Inventories

30. Under Ind AS 2, inventories are measured at

(a) Cost
(b) NRV
(c) The lower of cost and NRV
(d) The higher of cost and NRV

Set 3 – Answer key

Q	Ans	Explanation / working
21	(a)	1,46,000 × 10% × 73 ÷ 365 = **₹2,920**.
22	(c)	Doubtful up to 1 year 25%, **1–3 years 40%**, over 3 years 100% (secured portion); unsecured portion 100%.
23	(b)	**Uberrimae fidei** – utmost good faith.
24	(a)	Most of the surplus (commonly 90–95%) goes to **participating policyholders** as bonus.
25	(b)	Tariff regulations of the **Central/State Electricity Regulatory Commission** prescribe depreciation rates.
26	(c)	**Four** – short-term, post-employment, other long-term and termination benefits.
27	(b)	Ind AS 33 adjusts for all **dilutive potential equity shares**; anti-dilutive ones are ignored.
28	(b)	It gives evidence of a **condition existing at the reporting date**; the others are non-adjusting.
29	(b)	Ind AS 37 – **provisions, contingent liabilities and contingent assets**.
30	(c)	**Lower of cost and net realisable value**.

Set 4 – Chapters 7–8 (Audit basics and company audit)

31. Test checking reduces mainly the

(a) Inherent risk
(b) Volume of audit work
(c) Control risk
(d) Auditor's liability

32. A flow chart of an entity's internal control system is a

(a) Narrative record
(b) Graphic presentation of the system
(c) Questionnaire
(d) Audit programme

33. The permanent audit file does not normally contain

(a) Memorandum and articles
(b) Important long-term contracts
(c) Copy of this year's bank reconciliation
(d) Organisation chart

34. Which of the following is not an assertion about classes of transactions?

(a) Occurrence
(b) Completeness
(c) Existence
(d) Cut-off

35. The auditor's report in the format of SA 700 is addressed to

(a) The Board of Directors
(b) The members of the company
(c) The Registrar
(d) The audit committee

36. An auditor's report contains an opinion; an audit certificate contains

(a) An opinion
(b) A confirmation of the accuracy of specific facts
(c) Only recommendations
(d) A disclaimer

37. The reappointment of a company auditor at the AGM is governed by

(a) s.139
(b) s.141
(c) s.144
(d) s.148

38. Which service can a statutory auditor provide to the company without breaching s.144?

(a) Book-keeping
(b) Internal audit
(c) Tax representation
(d) Actuarial services

39. Cost records under the Cost Records and Audit Rules are maintained in Form

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

40. Secretarial audit is required under section

(a) 143
(b) 148
(c) 177
(d) 204

Set 4 – Answer key

Q	Ans	Explanation / working
31	(b)	Test checking (sampling) **reduces the volume of checking**, though it adds sampling risk.
32	(b)	A flow chart is a **graphic presentation** of the flow of documents and controls.
33	(c)	Year-specific working papers go to the **current file**.
34	(c)	**Existence** relates to account balances; occurrence relates to transactions.
35	(b)	The statutory auditor reports to the **members** (s.143).
36	(b)	A certificate **confirms the accuracy of facts**; a report gives an opinion.
37	(a)	**s.139** – appointment and reappointment; s.141 eligibility; s.144 prohibited services; s.148 cost audit.
38	(c)	s.144 bars accounting and book-keeping, internal audit, design of financial information systems, actuarial, investment advisory, investment banking, outsourced financial and management services; **taxation services are not barred**.
39	(a)	**CRA-1** – cost records; CRA-3 report; CRA-4 filing.
40	(d)	**s.204**, report in Form MR-3.

Set 5 – Chapter 9 (Audit of different entities)

41. Which of the following is not a tier of rural local self-government (Panchayati Raj)?

(a) Gram Panchayat
(b) Panchayat Samiti
(c) Zila Parishad
(d) Municipal Corporation

42. Audit of local bodies in most States is done by the

(a) Statutory auditor appointed by members
(b) Examiner/Director of Local Fund Audit
(c) SEBI
(d) NFRA

43. In the audit of a co-operative society, the auditor classifies the society into audit classes, commonly

(a) A, B, C and D
(b) I to X
(c) Gold, silver and bronze
(d) None

44. Multi-State co-operative societies are governed by the

(a) Companies Act, 2013
(b) Multi-State Co-operative Societies Act, 2002
(c) Societies Registration Act, 1860
(d) Indian Trusts Act, 1882

45. Caution money received by an educational institution is shown as

(a) Income
(b) A liability
(c) Capital fund
(d) A grant

46. In a hospital audit, the auditor reconciles patient bills mainly with the

(a) Doctors' register
(b) In-patient register and rate card
(c) Staff attendance register
(d) Visitors' book

47. In a hotel audit, a key check of room revenue is against the

(a) Guest register and room occupancy reports
(b) Salary register
(c) Fixed asset register
(d) Bank statement only

48. The auditor of a government company is appointed by the

(a) Board
(b) Members
(c) Comptroller and Auditor General
(d) Central Government

49. C&AG may comment on or supplement the audit report of a government company within

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

50. In the audit of a bank, an advance overdue for more than 90 days is

(a) A standard asset
(b) A non-performing asset
(c) A loss asset immediately
(d) Ignored

Set 5 – Answer key

Q	Ans	Explanation / working
41	(d)	A **municipal corporation** is urban local government.
42	(b)	The State **Local Fund Audit** department, with technical guidance from the C&AG.
43	(a)	Audit classification **A, B, C, D** (some States use more grades) reflects performance and compliance.
44	(b)	**MSCS Act, 2002**.
45	(b)	It is **refundable** – a liability.
46	(b)	Bills are checked against **admissions (in-patient register) and approved rates**.
47	(a)	**Guest register and occupancy reports** show the rooms sold.
48	(c)	s.139(5): **C&AG** appoints within **180 days** of the start of the financial year (first auditor within 60 days of registration, s.139(7)).
49	(b)	s.143(6): within **60 days** of receiving the audit report.
50	(b)	It becomes an **NPA**; income is recognised only on realisation.

Part B – Descriptive Practice Questions

QUESTION D1 – Pro-rata allotment and forfeiture (7 marks)

Rohan Ltd. issued 10,000 equity shares of ₹10 at par: ₹3 on application, ₹4 on allotment and ₹3 on call. Applications were received for 15,000 shares and allotment was made pro-rata, the excess application money being adjusted against allotment. Ram, who applied for 300 shares, paid neither allotment nor call; his shares were forfeited, and 150 of them were re-issued at ₹7 fully paid. Pass entries for forfeiture and re-issue.

SOLUTION D1

Ram was allotted 200 shares; paid 300 × 3 = **₹900**; excess 100 × 3 = 300 adjusted. Allotment unpaid = 200 × 4 − 300 = **₹500**; call unpaid = 200 × 3 = **₹600**.

Forfeiture: Share capital Dr 2,000 To Allotment 500, To Call 600, To Forfeited shares 900.

Re-issue: Bank Dr 1,050 + Forfeited shares Dr 450 To Share capital 1,500.

Capital reserve = 900 × 150/200 − 450 = **₹225**: Forfeited shares Dr 225 To Capital reserve 225. Balance in forfeited shares ₹225 (50 shares).

QUESTION D2 – Maximum buy-back (6 marks)

Share capital ₹50,00,000 (5,00,000 shares of ₹10); free reserves ₹30,00,000; securities premium ₹10,00,000; loans ₹60,00,000. Buy-back price ₹30. Find the maximum shares that can be bought back.

SOLUTION D2

Test	Working	Shares
25% of shares	25% × 5,00,000	1,25,000
25% of capital + free reserves (incl. premium)	25% × 90,00,000 = 22,50,000 ÷ 30	**75,000**
Debt-equity 2 : 1	90,00,000 − 30n ≥ 30,00,000 → n ≤ 2,00,000	2,00,000

Maximum = the lowest = **75,000 shares** (₹22,50,000). A special resolution is needed as it exceeds 10%.

QUESTION D3 – Underwriting (5 marks)

50,000 shares were underwritten by P (60%) and Q (40%). Applications for 42,000 shares: marked P 20,000, Q 18,000, unmarked 4,000. Find each underwriter's liability.

SOLUTION D3

Particulars	P	Q
Gross liability	30,000	20,000
Less: marked	(20,000)	(18,000)
Less: unmarked (60 : 40)	(2,400)	(1,600)
Net liability	**7,600**	**400**

Total 8,000 = 50,000 − 42,000 ✓.

QUESTION D4 – Schedule III classification (5 marks)

Show the head and sub-head for: (i) calls in arrear; (ii) loan repayable after 3 years with an instalment due in 6 months; (iii) goodwill; (iv) loose tools; (v) advance tax net of provision; (vi) security deposit paid for a 5-year lease; (vii) interest accrued but not due on borrowings; (viii) unclaimed dividend.

SOLUTION D4

Item	Classification
Calls in arrear	Deducted from subscribed capital under share capital (note)
Term loan	Non-current part – long-term borrowings; instalment due in 6 months – short-term borrowings (current maturities)
Goodwill	Non-current assets – intangible assets
Loose tools	Current assets – inventories
Advance tax (net)	Non-current or current tax assets (net) – other assets
5-year lease deposit	Long-term loans and advances / other non-current assets
Interest accrued but not due	Other current liabilities
Unclaimed dividend	Other current liabilities

QUESTION D5 – Cash from operations (6 marks)

Profit before tax ₹3,00,000 after depreciation ₹60,000, interest expense ₹20,000 and profit on sale of land ₹25,000. Receivables rose ₹30,000; payables rose ₹15,000; inventory rose ₹10,000; tax paid ₹70,000. Compute net cash from operating activities.

SOLUTION D5

Operating profit before working-capital changes = 3,00,000 + 60,000 + 20,000 − 25,000 = 3,55,000. Working-capital changes = −30,000 + 15,000 − 10,000 = −25,000 → 3,30,000. Less tax 70,000 → **₹2,60,000**.

QUESTION D6 – NPA provision (6 marks)

Standard advances ₹1 crore; sub-standard ₹12 lakh; doubtful up to 1 year ₹6 lakh (security ₹5 lakh); doubtful 1–3 years ₹5 lakh (security ₹3 lakh); doubtful over 3 years ₹2 lakh. Compute the provision.

SOLUTION D6

Standard 40,000 + sub-standard 1,80,000 + D1 (1,25,000 + 1,00,000) 2,25,000 + D2 (1,20,000 + 2,00,000) 3,20,000 + D3 2,00,000 = **₹9,65,000**.

QUESTION D7 – General insurance: premium earned (4 marks)

A fire insurer's net premium for 2025-26 is ₹50 lakh; reserve for unexpired risk on 1 April 2025 ₹20 lakh; the reserve is kept at 50% of net premium. Compute premium earned.

SOLUTION D7

Closing reserve = 50% × 50 = 25 lakh. Premium earned = 50 + 20 − 25 = **₹45 lakh** (credited to the fire revenue account).

QUESTION D8 – EPS with bonus issue (4 marks)

Profit 2025-26 ₹33 lakh, 2024-25 ₹30 lakh. 10 lakh shares; bonus 1 : 2 on 1 January 2026. Compute EPS for both years.

SOLUTION D8

A bonus issue has no consideration, so it is treated as outstanding from the start of the **earliest period** presented: 15 lakh shares in both years. EPS 2025-26 = 33 ÷ 15 = **₹2.20**; restated 2024-25 = 30 ÷ 15 = **₹2.00** (originally ₹3.00).

QUESTION D9 – Warranty provision (Ind AS 37) (4 marks)

Sales with a one-year warranty ₹1 crore. 80% of items are expected to have no defects, 15% minor defects (repair cost 2% of sales) and 5% major defects (10% of sales). Compute the provision.

SOLUTION D9

Expected value = 15% × 2% × 1 crore + 5% × 10% × 1 crore = 30,000 + 50,000 = **₹80,000**. For a large population of items, the obligation is measured at its **expected value**.

QUESTION D10 – Auditor's duty on fraud – s.143(12) (6 marks)

State the auditor's reporting duties when he has reason to believe that a fraud is being committed by officers or employees.

SOLUTION D10

- **Fraud of ₹1 crore or more:** report to the Board or audit committee within **2 days** of knowledge, seeking a reply within **45 days**; then forward the report with the reply (or his comments) to the **Central Government in ADT-4** within **15 days**.
- **Below ₹1 crore:** report to the audit committee or Board within 2 days, seeking a reply in 45 days; the company discloses the details in its **Board's report**.
- Applies equally to cost auditors and secretarial auditors (s.143(14)).
- Reporting in good faith is not a breach of the duty of confidentiality; failure attracts a penalty under s.143(15) of ₹5 lakh (listed company) or ₹1 lakh (other companies).