PUNJAB STATE TRANSMISSION CORPORATION LTD.

Departmental Accounts Examination- 2024 (1st Session)

Category SAS Part II | Paper- VI | Roll No.

(Accounts and Auditing)

Time allowed: 3 hours | Max. Marks: 100

Note: All questions are compulsory

Question 1.

Mr. Roy was unable to agree the Trial balance last year and wrote off the difference to the Profit and Loss Account of that year. Next year, he appointed a Chartered Accountant who examined the old books and found following mistakes:

Particulars		Amount Rs.
i.	Purchase of a scooter was debited to conveyance account	3000
ii.	Purchase account was overcast by	10000
iii.	A credit purchase of goods from Mr. P was entered as a sale	2000
iv.	Receipt of cash from Mr. A was posted to the account of Mr. B	1000
v.	Receipt of cash from Mr. C. was posted to the debit of his account	500
vi.	Amount due by Mr. Q was omitted to be taken to trial balance	500
vii.	Sale of goods to Mr. R was omitted to be recorded	2000
viii.	Amount of Rs 2395 of purchase was wrongly posted as Rs 2593/-	

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

(20 marks)

Question 2.

A) Whether an entity can use different cost formulae for inventories(As per AS 2) held at different geographical locations having similar nature and use to it.

B) X Ltd. Decides to revalue its intangible assets on 1 st April, 2024. On the date of revaluation, the intangible assets stand at a cost of Rs. 10000000 and accumulated amortisation is Rs 4000000. The intangible assets are revaluated at Rs. 15000000. How should X Ltd. Account for revalued intangible assets in its books of account?

(10+10= 20 marks)

Question 3.

Entity A has undertaken various transactions in the financial year ended March 31, 2024. Identify and present the transactions in the financial statements as per AS1.

Particulars		Amount Rs.
i.	Remeasurement of defined benefit plans	257000
ii.	Current Service Cost	175000
iii.	Changes in revaluation surplus	125000
iv.	Gains and losses arising from translating the monetary assets in foreign currency.	75000
v.	Gains and losses arising from translating the financial statements of a foreign operation.	65000
vi.	Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	100000
vii.	Income tax expense	35000
viii.	Share based payment cost	335000

(20 marks)

Question 4.

What is internal check? How it differ from Internal Audit? Describe a suitable internal check system for purchases.

(20 marks)

Question 5.

a) " An auditor is a watch dog not blood haunt" Discuss.

b) Differentiate between Capital and Revenue Expenditure.

(10+10= 20 marks)

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(Accounts and Auditing)

SOLUTION 1

Journal Entries in the books of Mr.Roy

Date	Particulars			Dr. ₹	Cr. ₹
(1)	Motor Vehicles Account To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-capitalization of`2,700,i.e., `3,000 less 10% depreciation)	Dr.		2,700	2,700
(2)	Suspense Account To Profit & Loss Adjustment A/c (Purchase Account overcast in the previous year; error now rectified).	Dr.		10,000	10,000
(3)	Profit & Loss Adjustment A/c To P's Account (Credit purchase from P`2,000,enteredassales last year; now rectified)	Dr.		4,000	4,000
(4)	B's Account To A's Account (Amount received from A wrongly posted to the account of B; now rectified)	Dr.		1,000	1,000
(5)	Suspense Account To C's Account (`500 received from C wrongly debited to his account; now rectified)	Dr.		1,000	1,000
(6)	Trade receivables To Suspense Account (`500 due by Q not taken into trial balance ;now rectified)	Dr.		500	500
(7)	R's Account To Profit & Loss Adjustment A/c	Dr.		2,000	2,000

	(Sales to R omitted last year; now adjusted)				
(8)	Suspense Account	Dr.		198	
	To Profit & Loss Adjustment A/c				198
	(Excess posting to purchase account last year, `2,593,insteadof`2,395,nowadjusted)				
(9)	Profit & Loss Adjustment A/c	Dr.		10,898	
	To Roy's Capital Account				10,898
	(Balance of Profit & Loss Adjustment A/c transferred to Capital Account)				
(10)	Roy's Capital Account	Dr.		10,698	
	To Suspense Account				10,698
	(Balance of Suspense Account transferred to the Capital Account)				

Note :Entries No.(2)and(8)may even be omitted; but this is not advocated.

Profit and Loss Adjustment Account

(Prior Period Items)

To P	4,000	By Motor Vehicles A/c	2,700
To Roy's Capital (transfer)	10,898	By Suspense A/c	10,000
		By R	2,000
		By Suspense Account	198
	14,898		14,898

Suspense Account

To Profit & Loss Adjustment Account	10,000	By Trade Receivables (Q)	500
To C	1,000	By Roy's Capital Account (Transfer)	10,698
To Profit & Loss Adjustment Account	198		
	11,198		11,198

Answer 2 (A): Paragraph 25 of Ind AS 2 prescribes that the cost of inventories, other than the items of inventories which are not ordinarily interchangeable as dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having similar nature and use to it. In this case, since the inventories held at different geographical location are of similar nature and use to the entity, different cost formula cannot be used for inventory valuation purposes.

Answer 2 (B): The intangible assets are revalued to Rs. 1,50,00,000 on an amortized replacement cost basis, which is a 150% increase from its original cost. Thereby applying the existing ratio of accumulated depreciation to the cost the revalued gross amount would be Rs. 2,50,00,000 gross and Rs. 1,00,00,000 on amortization.

Answer 3:

Items impacting the Statement of Profit and Loss for the year ended 31st March ,2024 (Rs.)

Current service cost	1,75,000
Gains and losses arising from translating the monetary assets in foreign currency	75,000
Income tax expense	35,000
Share based payments cost	3,35,000

Items impacting the other comprehensive income for the year ended 31st March, 2024 (Rs.)

Remeasurement of defined benefit plans	2,57,000
Changes in revaluation surplus	1,25,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000

Answer 4:

Internal check is a system through which the accounting procedures of an organization are so laid out that the accounts procedures are not under the absolute and independent control of any person. The work of one employee is complementary of that of another, enabling a continuous audit of the business to be made.

The essential elements of an internal check are:

- checks are implemented on day-to-day transactions
- checks operate continuously as a part of the system
- the work of each person is complementary to the work of another.

Difference Between Internal Check and Internal Audit

Internal Check	Internal Audit
A system of checks and balances within an organization	Independent, objective assurance and consulting activity
Focuses on preventing errors and fraud	Focuses on evaluating the effectiveness of internal controls and processes
Implemented and maintained by the organization	Conducted by an independent internal audit team
May be performed on a continuous basis	Typically performed on a periodic basis
May be reactive (detecting errors and fraud after they occur)	Maybe proactive (identifying potential problems before they occur)
May be limited in scope (e.g. focusing on a specific process or area)	Typically covers the entire organization or a significant portion of it

INTERNAL CHECK OVER PURCHASES :-

Following suggestions are given for a proper control over the purchases :

1. Supply Of Requisition :-

Whenever goods are needed in any department of the company, the head of the department should send the purchase requisition to the purchase department. He should mention the quality, quantity of the item and the time by which the goods must be supplied.

2. Purchase Order :-

It should be given in writing. It should be given on a printed and numbered forms. It should be recorded in the purchase book.

3. Copies Of Purchase Order :-

There should be three copies of each purchase order. One copy should be sent to the suppliers. One copy to the store clerk and one should remain with purchase department.

4. Writing Note :-

When goods will be received the store department will make an actual inspection. After counting or weighing receiving person will write the particulars on the good received note in duplicate.

5. Comparisons :-

One copy of the received good note will be sent to the purchase department. Purchase department will compare the quality and quantity with the invoice.

6. Invoice Checking :-

Each invoice on receipt should be checked by responsible officer with the purchase order that price and quantity is correct.

7. Inspection :-

Before storing the goods, these should be inspected and quality should be tested.

8. Purchase Return :-

In case of any defect it should be immediately reported to the purchase department. Purchase department may take up the case. All returns outwards should be duly authenticated as toils correctness.

9. Invoice Recording :-

Each invoice should be consecutively numbered and properly filed.

10. Payment :-

A responsible officer should pass on the payment of invoices. Before signing the cheque he should assure himself about the correctness of the account.

11. Proper Record :-

Proper record of purchase should be maintained in writing. All the officials and officers who are involved in the purchase, their initials must be taken.

Answer 5. (A) An auditor is a person who examines the financial records of an organization and provides an opinion on the accuracy and completeness of the financial statements. The role of an auditor is often compared to that of a watchdog or a bloodhound. The meaning of the statement "an auditor is a watchdog and not a bloodhound" and illustrates it.

Watchdog vs Bloodhound: A watchdog is a term used to describe someone who keeps a close eye on things to ensure that they are functioning properly. A bloodhound, on the other hand, is a term used to describe someone who is relentless in their pursuit of something. In auditing, these two terms have different meanings.

Watchdog: An auditor is considered a watchdog because their primary role is to ensure that an organization's financial statements are accurate and complete. They review the financial records of the organization and provide an opinion on whether the financial statements present a true and fair view of the organization's financial position.
Illustration: For example, an auditor might review the bank statements of an organization to ensure that all transactions have been properly recorded and that there are no unexplained discrepancies. They might also review the organization's inventory records to ensure that the value of the inventory is accurately reflected in the financial statements.

Bloodhound: A bloodhound, on the other hand, is someone who is relentless in their pursuit of something. In auditing, this term is often used to describe an auditor who is looking for fraud or other irregularities in an organization's financial records.
Illustration: For example, an auditor might review the organization's expense reports to ensure that there are no fraudulent or unauthorized expenses. They might also review the organization's payroll records to ensure that employees are being paid correctly and that there are no discrepancies in the hours worked.

Conclusion: In conclusion, the statement "an auditor is a watchdog and not a bloodhound" means that an auditor's role is to ensure that an organization's financial statements are accurate and complete, rather than to actively search for fraud or other irregularities. While auditors may uncover irregularities during the course of their work, their primary role is to provide an opinion on the accuracy and completeness of the financial statements.

Answer 5 (B)

Revenue Expenditure vs Capital Expenditure

Basis	Capital Expenditure	Revenue Expenditure
Purpose	It is the expenditure incurred for the purpose of acquiring fixed assets or enhancing the value of the fixed assets.	It is the expenditure incurred for the purpose of running the daily activities.
Nature	It is an Asset account.	It is an Expense account.
Accounting Treatment	It is debited from the respective asset account.	It is debited from the respective expense account.
Benefits	The benefits of capital expenditure extend to more than one accounting period.	The benefits of revenue expenditure get exhausted within one accounting period.
Earning Capacity	It is the expenditure incurred to improve the earning capacity of the business.	It is the expenditure incurred to earn profits and does not contribute to improving the earning capacity.
Presentation	It is presented or recorded in the Balance Sheet.	It is presented or recorded in the Trading or Profit And Loss A/c.
Example	Acquisition of fixed assets like plants and machinery, piece of land, buildings, etc. are examples of capital expenditure.	Rent, salaries, power, fuel, shipment, interest and depreciation, etc. are examples of revenue expenditure.