

INTERMEDIATE EXAMINATION

December 2013

P-12(CAA)
Syllabus 2012

Company Accounts and Audit

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

The paper is divided in three sections. From Section A, answer to Question No. 1 is compulsory.

From Question No. 2(a), (b) and (c) any two questions to be answered.

From Section B, answer to Question No. 3 is compulsory. From Question No. 4(a), (b) and (c) any two questions to be answered.

From Section C, answer to Question No. 5 is compulsory. From Question No. 6(a) and (b) one question to be answered and from Question 7(a), (b) and (c) any two questions to be answered.

SECTION A

1. (Compulsory) Answer the following: 2×2=4
- (a) State the disclosure requirements under AS-12.
- (b) During the year 2011-12, Pankaj Limited has spent and carried forward in Books an amount of Rs. 15,00,000 being costs incurred in developing a product for cure for cancer. During the year 2012-13, due to adverse test results after field trial, the company decided to abort the efforts to develop the product.
- What will be the treatment for the amount spent so far on developing the product in the financial statements of the Company for the year ending 31st March, 2013?
2. Answer any two questions from (a), (b) and (c): 8×2=16
- (a) (i) What are the disclosure requirements for an enterprise as per AS-11? 4
- (ii) The following details are provided by an Import House:
- | Particulars | Exchange rate
1 Us Dollar = |
|---|--------------------------------|
| Goods purchased on 24th August, 2012 Us Dollar 2,00,000 | Rs. 47.10 |
| Exchange rate on 31st March, 2013 | Rs. 54.20 |
| Exchange rate on date of actual payment on 25th May, 2013 | Rs. 56.30 |
- Calculate gain or loss for the financial years 2012-13 and 2013-14 and its accounting treatment. 4
- (b) Kovid Limited has taken a Machinery on Lease from Krishna Limited.
- The following information are provided by Kovid Limited:
- | | |
|----------------------------------|--|
| Lease Term | 5 years |
| Fair value at inception of Lease | Rs. 20 Lakhs |
| Lease Rent | Rs. 5 Lakhs per annum payable at the end of the year |
| Expected Residual value | Rs. 3 Lakhs |
| Guaranteed Residual value | Rs. 2 Lakhs |
| Implicit Interest rate | 15.5% per annum |
- You are required to prepare Lease Rent Account and Lease Liability Account in the Books of Kovid Limited. (The present value of Re. 1 at Discount rate of 15.5% are 0.8658, 0.7496, 0.6490, 0.5619 and 0.4865 for year 1 to year 5 respectively.) 8
- (c) (i) What are the characteristics of a liability? 4
- (ii) How is software acquired for internal use accounted for under AS-26? 4

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SECTION B

3. (Compulsory) Answer the following: 2×4=8
- What is the meaning of the expression 'cash equivalent'?
 - What are the maximum limit of Managerial remuneration payable for a Company earning sufficient Profit as per Section 198 of Companies Act?
 - What are the sources available for buy-back of shares for a Company as per Section 77A of Companies Act?
 - Chandu Limited was incorporated on August 1, 2012. It had acquired a running business from April 1, 2012. During the year 2012-13 the total sales of the business were Rs. 63,00,000. The Sales per month in the first half year were ½ of what they were in the second half. Calculate the ratio of Sales for the period prior to and post incorporation.

4. Answer *any two* questions from (a), (b) and (c): 16×2=32
- (a) (i) The following is the Balance Sheet of Superstar Ltd. as at 31.03.2013:

Liabilities	Amount (Rs. in Lakhs)
10% Redeemable Pref. Shares of Rs. 10 each, fully paid	2,500
Equity Shares of Rs. 10 each, fully paid	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit and Loss A/c	300
9% Debentures	5,000
Sundry Creditors	2,300
Sundry Provisions	1,000
	26,900
Assets	Amount (Rs. in Lakhs)
Fixed Assets	14,000
Investments	3,000
Cash at Bank	1,650
Other Current Assets	8,250
	26,900

On 1st April, 2013 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ Rs. 20 per share. In order to make cash available, the company sold all the investments for Rs. 3,150 lakh and raised a bank loan amounting to Rs. 2,000 lakhs on the security of the company's plant.

Pass Journal Entries for all the above mentioned transactions including Cash transactions. The amount of securities premium has been utilised to the maximum extent allowed by law. 8

- (ii) The following relevant items from the Balance Sheet of LM Limited are provided:

	Balance Sheet figures	
	As at 31.3.2012	As at 31.3.2013
	Rs.	Rs.
Goodwill	90,000	75,000
Profit and Loss A/c	4,15,000	6,25,000
General Reserve	3,25,000	3,75,000
Inventories	4,15,000	5,10,000
Debtors	3,45,000	3,22,000
Prepaid Expenses	18,000	15,000
Creditors	2,35,000	2,70,000
Provision for Taxation	1,05,000	1,55,000
Provision for Doubtful Debts	17,250	15,000

Depreciation amounting to Rs. 1,42,000 and Profit on sale of Machinery amounting to Rs. 21,000 appeared in the Profit and Loss A/c for the year ending 31.3.2013. During the year 2012-13 Rs. 1,00,000 was paid as Income Tax.

You are required to calculate Net Cash Flow from operating activity for the year ending 31st March, 2013. 4

- (iii) ABC Ltd. issued 40,000 Equity shares. Three Underwriters were appointed to underwrite the shares and the shares were underwritten as under:

Underwriter	No. of Shares Underwritten
X	24,000
Y	10,000
Z	6,000

The above Underwriters made application for 'firm' underwriting as under:

Underwriter X for 3,200 nos. shares, Underwriter Y for 4,000 nos. shares and underwriter Z for 1,200 nos. shares.

The Company received application for 20,000 nos. shares, excluding 'firm' underwriting but including marked applications which were as under:

Underwriter	Marked application for No. of Shares
X	4,000
Y	5,000
Z	2,000

You are required to calculate the allocation of liability of the respective Underwriters.

(As per contract, the Underwriters are to be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten.) 4

- (b) (i) Tree Ltd. agreed to acquire all the assets of Plant Ltd. except its investments, as on 31st March, 2013:

Balance Sheet of Plant Ltd. as on 31st March, 2013

Liabilities	Rs.	Assets	Rs.
Share Capital (Rs. 10 each)	5,00,000	Goodwill	70,000
Reserves	75,000	Land & Building	1,50,000
8% Debentures	2,25,000	Plant	2,50,000
Creditors	3,00,000	Investments	50,000
		Stock	1,00,000
		Debtors	3,50,000
		Bank	1,30,000
	11,00,000		11,00,000

Tree Ltd. will:

- (1) Discharge the debentures at 8% premium by issue of 7% debentures in Tree Ltd. at 10% discount;
- (2) Issue of 3 shares of Tree Ltd. (face value Rs. 10 each) for every 2 shares in Plant Ltd.;
- (3) Pay Rs. 2 in cash for each share of Plant Ltd.; and
- (4) Pay absorption expenses of Rs. 5,000.

Plant Ltd. sold its investments for Rs. 55,000. Shares received from Tree Ltd. are sold at Rs. 11 each. Before the absorption, Plant Ltd. declared and paid 10% dividend to its shareholders.

You are required to give the required Journal entries and Ledger accounts in the books of the vendor company i.e. Plant Ltd. 10

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- (ii) A company went into voluntary liquidation on 31.3.2013 when the following Balance Sheet was prepared:

Liabilities	Rs.	Assets	Rs.
Authorised Capital: 40,000 shares of Rs. 10 each	4,00,000	Goodwill	1,70,000
Issued Capital: 25,000 shares of Rs. 10 each	2,50,000	Freehold Property	20,000
Unsecured Creditors	50,000	Machinery	75,000
Partly Secured Creditors	1,20,000	Stock	25,000
Preferential Creditors	3,000	Debtors	35,000
Bank Overdraft (Unsecured)	500	Cash	500
		Profit & Loss A/c	98,000
	4,23,500		4,23,500

The liquidator realized the assets as follows:

Freehold property which was sold to pay the partly secured creditors and it fetched Rs. 15,000;
Other assets realized as Machinery Rs. 50,000; Stock Rs. 20,000; Debtors Rs. 25,000.

The expenses of liquidation amounted to Rs. 1,000 and the liquidator's remuneration was agreed at 2.5% on the amount realized and 2% on the amount paid to unsecured creditors.

Prepare liquidator's final statement of account.

- (c) (i) Following are the summarised Balance Sheets of Y Ltd. and Z Ltd. as on 31st March, 2013:

(Rs. in ,000)

Liabilities	Y Ltd.	Z Ltd.	Assets	Y Ltd.	Z Ltd.
Equity Share Capital (Shares of Rs. 10 each)	10,000	6,000	Fixed Assets	11,000	5,000
Reserves	2,000	1,100	Shares in Y Ltd. (2,00,000 nos.)	—	2,000
Creditors	3,000	1,900	Stock	1,800	1,100
			Debtors	1,890	750
			Cash at Bank	310	150
	15,000	9,000		15,000	9,000

Y Ltd. acquired the business of Z Ltd. on the basis of intrinsic value of shares. The purchase consideration is to be discharged in the form of fully paid equity shares. On the Balance Sheet date a sum of Rs. 5,00,000 is owed by Y Ltd. to Z Ltd. Amount of stock of Y Ltd. include goods worth Rs. 5,50,000 supplied by Z Ltd. at cost plus 25%.

You are required to:

- (1) Calculate the purchase consideration and compute the number of Equity shares to be issued by Y Ltd. to eligible outsiders.
- (2) Show the necessary Journal entries in books of Y Ltd., if the entries are made at intrinsic value.
- (3) Prepare Balance Sheet of Y Ltd. after absorption.

- (ii) Explain what is Segment Revenue and what are the disclosure requirements of reportable segment.

SECTION C

5. (Compulsory) Answer the following:

2×4=8

- (a) What do you understand by audit evidence?
- (b) What is Tax audit?
- (c) Describe 'Voucher' and 'Vouching'.
- (d) What are the disqualifications for appointment of Statutory Auditor of a Company?

6. Answer either (a) or (b):

- (a) (i) State the basic features and necessity of continuous Audit. 4+4
(ii) State the scope and advantages of Operational Audit. 4+4

Or

- (b) (i) State the advantages of Cost Audit to Management and Shareholders. 4+4
(ii) What are the limitations of Internal Control? 4+4

7. Answer *any two* questions from (a), (b) and (c):

12×2=24

- (a) (i) Mr. Jaggu, Auditor of Baiju Limited is of the opinion that 'Standards on Auditing' are meant only for reference purpose and it is not necessary to follow such standards while auditing. Give your comments. 4
(ii) Discuss the role of C & AG in the Audit of Government Company. 4
(iii) Distinguish between 'Qualified Report' and 'Adverse Report' of an Auditor. 4
- (b) (i) State the parameters to be satisfied for issuing an unqualified audit report? 4
(ii) Explain the significance of audit working papers. 4
(iii) A Company disclosed Rs. 15 Lakhs as outstanding from Bihar Ltd. as on 31.3.2013. Bihar Ltd. declared itself sick and filed for bankruptcy in May, 2013. As the Auditor of the Company how will you approach the issue? 4
- (c) (i) State the areas of operations of Internal Audit and its features. 8
(ii) What is cut off procedure? Explain its significance in the context of Auditing. 4
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