INTERMEDIATE EXAMINATION

December 2014

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.

This paper contains four questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.

Assumptions, if any, must be clearly indicated.

1. Answer *all* questions: 2×10=20

(a) State the classification of cash flow activities as per AS-3.

(b) During the year 2013-14, Purvi Limited received a grant from the Government of India amounting to ₹ 35 lakh towards purchase of a piece of land for ₹ 140 lakh.

You are required to show the accounting treatment of the above transaction in the books of Purvi Limited, as per AS-12.

(c) Chandra Limited purchased a machinery of ₹ 10,00,000 from Machinery Mart. The consideration was paid in the form of fully paid up equity shares of ₹ 10 each at 60% premium. Pass necessary journal entries in the books of Chandra Ltd.

(d) What are the types of amalgamation as per AS-14?

(e) What are the various modes of buy-back of shares by a Limited Company?

(f) X Ltd. decides to redeem 650, 15% preference shares of ₹ 100 each at 10% premium. It has General Reserve of ₹ 45,500 and securities premium of ₹ 1,000. The new equity shares of ₹ 10 each are to be issued at 25% premium for the purpose of redemption of preference shares. Calculate the minimum number of equity shares to be issued by X Ltd.

(g) What is the basic difference between audit report and audit certificate?

(h) What do you understand by audit programme?

(i) State the three components of audit risk.

(j) Mention four situations where external confirmation may be useful for auditors.

2. Answer *any two* questions: 8×2=16

(a) Neel Limited issued 5,00,000 equity shares of ₹ 10 each, fully paid amounting to ₹ 50,00,000. It issued right shares among the existing shareholders, on 31st July, 2013 in the proportion of one new share for two outstanding shares at ₹ 50 each. Market price of the company's share prior to right issue was ₹ 90. Net profit before tax for the year ending on 31st March, 2013 and 31st March, 2014 was ₹ 11,00,000 and ₹ 13,50,000 respectively. Corporate tax rate is 30%.

You are required to compute the basic earnings per share for the financial years 2012-13 and 2013-14. 8

(b) (i) Kachari Limited granted 25,000 employees stock options (face value ₹ 10) on 1st April, 2012 at ₹ 100, when the market price was ₹ 425. The options were to be exercised between 16th October, 2012 and 15th March, 2014. The employees exercised their options for 22,500 shares only. The remaining options lapsed. The company closes its books on 31st March every year. Pass Journal entries. 4

(ii) Hetarth Ltd. provides after sales warranty for 2 years to its customers. Based on the past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under:

Invoice Date	Amount ₹
19th January, 2012	40,000
29th January, 2013	25,000
15th October, 2013	90,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2013 and 31st March, 2014. Also compute amount to be debited to Profit and Loss Account for the year ended 31st March, 2014. 4

(c) (i) MN Ltd. acquired a patent at a cost of ₹ 90 lakh for a period of six years and the product life cycle is also six years. The company capitalized the cost and started amortising at ₹ 15 lakh per annum. After 3 years, it was found that the product life cycle may continue for another 5 years from then. The net cash flow from the product during these 5 years are expected to be ₹ 30 lakh, ₹ 45 lakh, ₹ 38 lakh, ₹ 35 lakh and ₹ 32 lakh.

Find out the amortization cost of the patent for each of the years as per AS-26. 5

(ii) From the following information, calculate the actual return on pension plan assets:

	₹
Fair market value of plan assets on 1st April, 2013	45,00,000
Fair market value of plan assets on 31st March, 2014	51,20,000
Employer's contribution	6,65,000
Benefit paid to retirees	7,60,000

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3. Answer *any two* questions: 16×2=32

(a) (i) Masood Ltd. came out with an issue of 45 lakh equity shares of ₹ 10 each at a premium of ₹ 2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by P, Q and R respectively.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:

P	7,25,000 shares
Q	8,40,000 shares
R	13,10,000 shares
	28,75,000 shares

The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towards shares subscription has to be paid along with application.

You are required to:

(1) Compute the underwriters' liability (number of shares);

(2) Compute the amount payable as due to underwriters; and

(3) Pass necessary Journal Entries in the books of Masood Ltd. relating to underwriters.

(*Note:* 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.) 8

(ii) State the conditions for issue of Sweat Equity Shares. 4

(iii) There are two whole-time directors and three part-time directors in Pooja Limited. As per the Articles of the company, whole time directors are entitled to a commission @ 10% of the profits remaining after charging commission of the part-time directors and the part-time directors are entitled for a commission @ 1% of the profits remaining after charging the commission of the whole-time directors. The net profit of the company is ₹ 50,00,000 before charging any commission of whole-time directors and part-time directors.

You are required to find out the total remuneration payable to the whole-time directors and part-time directors, as per provisions contained in the Company's Articles. 4

(b) (i) The following are the items in the Balance Sheets of Ritu Limited and Richa Limited as on 31st March, 2014:

	Ritu Ltd. ₹ (lakhs)	Richa Ltd. ₹ (lakhs)
Share Capital in ₹ 10 fully paid equity shares	5,000	2,000
Reserves and Surplus	5,000	3,000
Unsecured Loans	2,000	1,000
Creditors	1,000	500
Total:	**13,000**	**6,500**
Fixed Assets at Cost Less Depreciation	6,000	4,000
Current Assets	7,000	2,500
Total:	**13,000**	**6,500**

On 31st March, 2014, Ritu Limited absorbed Richa Limited by allotting its 5 equity shares for every 4 shares of Richa Limited, on the basis of intrinsic Values of their equity shares. Balance, if any, is paid by Ritu Limited in cash to Richa Limited to satisfy the amount of purchase consideration.

You are required to: (1) Compute purchase consideration showing the number of equity shares issued by Ritu Limited and cash paid for balance amount to Richa Limited, if needed.

(2) Pass journal entries in the books of Ritu Limited. 8

(ii) Mogari Limited has 10% Redeemable Preference share capital of ₹ 30,00,000 consisting of ₹ 10 shares fully paid up. The company wants to redeem these shares at 25% premium. The ledger accounts show the following balances:

Securities premium ₹ 1,00,000; General Reserve ₹ 13,00,000 and Profit & Loss Account (Cr.) ₹ 7,00,000

In order to facilitate the redemption of preference shares, the company decided the following:

1. 1,20,000 Equity shares of ₹ 10 each were issued at 50% premium.
2. 10,000, 12% Debenture of ₹ 100 each were issued at par.
3. Investments of book value ₹ 5,00,000 were sold at ₹ 5,60,000.

Pass the necessary journal entries to record above transactions and redemption of preference shares. 8

(c) (i) Suku Limited went into voluntary liquidation. The details regarding liquidation are as follows:

Share Capital:

9,000, 10% Preference Shares of ₹ 100 each (fully paid-up)

Class A, 8,000 Equity Shares of ₹ 100 each (₹ 75 paid-up)

Class B, 6,400 Equity Shares of ₹ 100 each (₹ 60 paid-up)

Class C, 56,000 Equity Shares of ₹ 10 each (₹ 5 paid-up)

Assets including machinery realized ₹ 17,50,000. Liquidation expenses including remuneration of liquidator amounted to ₹ 72,000. The company has borrowed a loan of ₹ 2,00,000 from Bank of Baroda against the mortgage of machinery (which realized ₹ 3,22,000). In the books of the company, salaries of ten clerks for four months at a rate of ₹ 600 per month and salaries of six peons for three months at a rate of ₹ 300 per month, are outstanding. In addition to this, the company's books show other creditors worth ₹ 5,24,600. Prepare Liquidator's Final Statement of Account. 8

(ii) Relevant balance sheet accounts of Arti Limited, as on 31st March, 2013 and 2014 are as follows:

(₹ in lakhs)

Particulars	31.03.13	31.03.14
General Reserve	46	49·50
Profit and Loss A/c (Cr.)	41	47·00
Creditors	25	23·50
Bills Payable	3	4·00
Income Tax Payable	10	17·00
Proposed Dividend	15	18·00
Stock	30	27·00
Debtors	22	26·00
Bills Receivable	4	2·50
Prepaid Expenses	1	2·40

Other Information:

(1) During the year 2013-14, one old machine costing ₹ 6,45,000 (W.D.V. ₹ 3,92,000) was sold for ₹ 3,68,000 and some investments are sold at a profit of ₹ 15,000.

(2) During the year 2013-14, depreciation charged ₹ 4,50,000, goodwill written off ₹ 25,000 and Income tax paid ₹ 8,75,000.

You are required to calculate the net cash flow from operating activities. 8

4. Answer *any two* questions: 16×2=32

(a) Comment on the following: 4×4=16

(i) The concept of true and fair is a fundamental concept in Auditing.

(ii) Management Audit is a comprehensive and thorough examination of an organisation or one of its components.

(iii) The Audit Note Book is a permanent record of the auditor.

(iv) The responsibilities of joint auditors are joint and several.

(b) (i) What are the matters to be considered while conducting the audit of a hospital? 8

(ii) State the objectives and functions of the Auditing and Assurance Standard Board (AASB). 4

(iii) Discuss the liability of an auditor towards third parties. 4

(c) (i) As an auditor of a company, how will you verify 'Loose Tools' appearing in the financial statements of the company? 4

(ii) State the Analytical Review Procedure adopted by the auditor of a company to verify inventory. 4

(iii) Explain the standards set for audit of Government Expenditure. 4

(iv) What is meant by Computer Assisted Audit Technique(CAAT)? Name any three CAATs available to the auditor. 4