

INTERMEDIATE EXAMINATION

June 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.

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 no. 7(a), (b) and (c) any two questions to be answered.

(Whenever necessary relevant assumptions may be made and disclosed by way of note.

Working Notes should form part of answer.)

SECTION A

1. (Compulsory) Answer the following: 2×2=4
- (a) State the two main accounting assumptions, on which financial statements are prepared and presented.
- (b) State the types of lease to which AS-19 are not applicable.
2. Answer any two questions from (a), (b) and (c): 8×2=16
- (a) (i) Jayakrishna Mills Ltd., runs a modern wheat flour mill. The CFO has prepared the draft accounts, duly considering the mandatory accounting standards. Following note appears: "The company purchased on 15.6.2013, a special purpose machinery for Rs. 75 lakhs. It received a State Government grant for 10% of the price. The machine has an effective life of 10 years".
- What is the proper method of accounting treatment for the above? 4
- (ii) Springlily Ltd. borrowed US \$ 6,00,000 on 31.12.2013 which will be repaid (settled) as on 30.6.2014. The company prepares its financial statements ending on 31.3.2014.
- Rate of exchange between reporting currency (Rupee) and foreign currency (US \$) on different dates are as under:
- | | |
|------------|-------------------|
| 31.12.2013 | 1 US \$ = ₹ 64.00 |
| 31.03.2014 | 1 US \$ = ₹ 64.50 |
| 30.06.2014 | 1 US \$ = ₹ 64.75 |
- State the aspects to be noted while preparing the financial statements due to the applicable AS. How should the difference in exchange rates be treated? 4
- (b) (i) State the disclosure requirements under AS-15. 3
- (ii) What are the components of pension expenses for defined benefit pension plan? 5
- (c) (i) What are the requirements to be considered by an enterprise by AS-26 as regards each class of provisions? 5
- (ii) In 2012-13, ABC Pharma Ltd. had spent and carried forward in the books a total sum of ₹ 7,00,000 on developing a cure for rheumatism. During the current year, i.e. 2013-14, it is decided to terminate this product, since the test results in the current year have proved adverse.
- What will be the treatment of the following in the final statement of accounts for the year ended 31.3.2014, of ABC Pharma Ltd.? 3

Please Turn Over

SECTION B

3. (Compulsory) Answer the following: 2×4=8
- (a) What is surrender of shares? What is the accounting treatment in the books of a company for surrender of shares?
- (b) Name four items which are required to be disclosed under the head 'Inventories' as per schedule vi disclosure requirement.
- (c) State the two major methods of accounting used for Mergers.
- (d) State the objects of the issue of debentures according to the guidelines issued by the Controller of Capital Issues.
4. Answer *any two* questions from (a), (b) and (c): 16×2=32
- (a) (i) The following was the summarized financial position of Chanakya Ltd. as on 31st. March, 2014:

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		Fixed Asssets	15,000
Equity Shares of ₹ 10 each fully paid Up	7,000	Investments	3,000
10% Redeemable Pref. Shares of ₹ 10 each fully Paid Up	3,000	Cash at Bank	1,450
Reserve & Surplus		Other Current Assets	7,550
Capital Redemption Reserve	1,100		
Securities Premium	700		
General Reserve	5,800		
Profit & Loss Account	500		
Secured Loans:			
9% Debentures	4,000		
Current Liabilities:			
Trade payables	3,800		
Sundry Provisions	1,100		
	27,000		27,000

On the 1st April, 2014 the Company redeemed all its Preference Shares at Premium of 10% and bought back 10% of its Equity Shares at ₹ 11 per Shares. In order to make funds available, the Company sold all the investments for ₹ 3,200 lakhs and raised a Bank Term Loan for the balance.

You are required to prepare the Balance Sheet of the Company after the redemption/buy back of shares. Assume that the securities premium account was utilised to the maximum possible extent. 10

- (ii) From the following informations, calculate the Commission payable to Mr. Rajan, the Managing Director of Securities India Ltd.

Profit as per the Profit and Loss A/c. is ₹ 1,45,09,000 after deducting the depreciation of ₹ 1,24,24,000. Salary and remuneration to the Managing Director of ₹ 72,000 and Director fees of ₹ 4,000. The depreciation as per u/s 350 of the Companies Act, 1956 is of ₹ 1,04,24,000. 6

- (b) (i) On January 1, 2004 Vardhaman Ltd. allotted 20,000, 9% Debentures of ₹ 100 each at par, the total amount having been received along with applications.

- (1) On 1st Feb., 2005 the Company purchased in the open market 2,000 of its own debentures @ ₹ 102 each and cancelled them immediately.
- (2) On 1st January, 2008 the Company redeemed at per debentures for ₹ 3,00,000 by draw of a lot.
- (3) On 1st June, 2010 the Company purchased debentures of the face value of ₹ 2,00,000 for ₹ 1,97,800 in the open market, held them as investments for one year and then cancelled them.
- (4) Finally, as per resolution of the Board of Directors, the remaining debentures were redeemed at a premium of 3% on 1st Feb., 2014 when Securities Premium Account in the company's ledger showed a balance of ₹ 50,000.

Pass journal entries for the above mentioned transactions ignoring debentures redemption reserve, debenture-interest and interest on own debentures. 10

- (ii) The following particulars relate to a Varahamihira Pipes Limited which has gone into voluntary liquidation on 31.3.2014.

Share Capital issued:

6,000 Preference share of ₹ 100 each fully paid up.

45,000 Equity Shares of ₹ 10 each fully paid up.

20,000 Equity Shares of ₹ 10 each, 7 paid up.

Assets realised ₹ 14,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

Particulars	Amount (₹)
Preferential Creditors	40,000
Unsecured Creditors	11,00,000
Partly Secured Creditors (Assets realized ₹ 2,20,000)	2,75,000
Debenture holders having floating charge on all assets of the company	5,00,000
Expenses of Liquidation	22,000

A call of ₹ 3 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1000 shares.

You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 3% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors. 6

Please Turn Over

- (c) (i) Given below is the information regarding five different segments of M/s. Varun Ltd. (₹ in lakhs)

Segments	P	Q	R	S	T	Total
Segmental Revenue	100	300	200	100	300	1,000
Segment Result	40	(60)	90	10	(30)	50
Segment Assets	45	55	140	20	40	300

As a Cost Accountant of the concerned company, the company management wants to know from you which company need to be reported. 6

- (ii) Shyama Limited has given the following information for the preparation of cash flow statement for the year 2013-14

	₹ in 000
Net profit before tax	50,000
Dividend (including dividend tax) paid	17,070
Provision for income tax	10,000
Income tax paid during the year	8,496
Loss on sale of assets (net)	80
Book value of the assets sold	370
Depareciation charged during the year	40,000
Amortisation of capital grant	12
Profit on sale of investments	200
Cost of investment sold	55,530
Interest received on investments	5,012
Interest expenses	20,000
Interest paid during the year	21,040
Increase in Current Assets (excluding cash & Bank balance)	77,500
Decrease in Current Liabilities	34,650
Purchase of Fixed Assets	29,120
Purchase of investment	7,700
Expenditure on construction work in progress	69,480
Receipt of grant for capital projects	28
Proceeds from issue of share capital	51,960
Proceeds from issue of Debentures	41,150
Opening cash and Bank balance	10,006
Closing cash and Bank balance	13,976

You are required to prepare the Cash Flow Statement for the year 2013-14 in accordance with AS-3. 10

SECTION C

5. (Compulsory) Answer the following: 2×4=8
- (a) What is test checking in Audit Work?
 - (b) State the duties of Auditor in respect of issue of Debentures as co-lateral security.
 - (c) Can a practising Cost Accountant be appointed as statutory auditor of a private limited company by its shareholders in an Annual General Meeting?
 - (d) Why do the financial institutions demand Management Audit by companies, while participating in their equities?
6. Answer either (a) or (b):
- (a) (i) Is the system of propriety audit applied in respect of all public limited companies? 4
 - (ii) Discuss in brief, the principles, which are useful in assessing the reliability of audit evidence. 4
- Or*
- (b) (i) As an auditor of a company, how will you verify the Research and Development costs of the Company. 4
 - (ii) What are the objects of verification of Assets and liabilities. 4
7. Answer *any two* questions from (a), (b) and (c): 12×2=24
- (a) (i) Bring out in a tabular form, the relationship between accounting and auditing. 4
 - (ii) State the aspects to be seen by an auditor to ensure that the statements audited project a true and fair view. 4
 - (iii) What is meant by cost audit? State the duties of a cost auditor. 4
 - (b) (i) Tabulate the differences between statutory audit and forensic audit. 4
 - (ii) What is meant by Audit Note Book? State its importance. What are the contents of a typical Audit Note Book? 8
 - (c) (i) Tabulate the differences between a Checklist and Internal control questionnaire. 4
 - (ii) What are the matters to be considered while conducting the audit of a charitable institution? 8
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