INTERMEDIATE EXAMINATION

June 2015

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.

Asumptions, if any, must be clearly indicated.

1. Answer all questions: 2×10=20

(a) Neel Limited issued 10,000 debentures of ₹ 10 each redeemable at the end of 10 years, but reserves the right to redeem earlier from the end of 3rd year. The company decides at the end of 5th year to redeem 2,000 debentures out of its profits. Pass necessary journal entries in the books of Neel Limited on redumption of debentures.

(b) Explain when the research and development cost of a project can be deferred to future period as per AS-26.

(c) State the cases in which AS-29 does not get applicable.

(d) Net profit for the year 2013-14 is ₹ 25 lakhs and for the year 2014-15 is ₹ 75 lakhs. Number of equity shares outstanding until 31st December, 2014 is 20 lakhs. Bonus issue was made on 1st January, 2015 @ one equity share for each equity share outstanding as on 31st December, 2014. Calculate Basic Earnings per share for the year 2014-15 as per AS-20.

(e) Rukmani Limited purchased a plant for US \$ 2,50,000 on 1st March, 2015, payable after three months. Company entered into a forward contract for three months @ ₹ 54.10 per dollar. Exchange rate per dollar on 1st March, 2015 was ₹ 53.74. Compute amount of profit or loss on forward contract as per AS-11. How will you recognise the same in the books of the company?

(f) What do the term 'Potential Equity Shares ' signify?

(g) What do you understand by Information Security Audit?

(h) What is continuous Audit?

(i) What do you understand by test checking in Audit Work?

(j) What is vouching?

2. Answer *any two* questions : 8×2=16

(a) Makkhu Limited leased a machine to Gunu Limited on the following terms:

(i)	Fair value of the machine	₹ 72 lakhs
(ii)	Lease term	5 years
(iii)	Lease rental per annum	₹ 12 lakhs
(iv)	Guaranteed residual value	₹ 2.40 lakhs
(v)	Expected residual value	₹ 4.50 lakhs
(vi)	Internal rate of return	15%

Discounted rates at 15% for ₹ 1, 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

Ascertain Unearned Finance Income. 8

(b) (i) As on 1st April, 2014, the fair value of plan assets was ₹ 2,00,000 in respect of a pension plan of Sagar Limited. The plan paid out benefits of ₹ 25,000 and received inward contributions of ₹ 55,000. On 31st March, 2015, the fair value of plan assets was ₹ 3,00,000 and acturial losses on the Defined Benefit Obligations for the year 2014-15 were ₹ 30,000. On 1st April, 2014, the company made the following estimates, based on its market studies, understanding and prevailing prices:

Interest and Dividend income, after tax payable by the fund 11.25% p.a. Realised and unrealised gains on plan assets (after tax) 3% p.a. Fund administrative costs 4% p.a. Calculate Net Acturial gains/losses for the year 2014-15. 5

(ii) Patta Ltd. purchased a piece of Land for ₹ 25,00,000 for which it received a grant from the State Government amounting to ₹ 6,00,000.

How will you treat Government grant in the accounts as per AS-12? Also pass the necessary journal entries of the above in the books of the company. 3

(c) (i) STF Ltd. with a turnover of ₹ 200 Cr. and an annual special advertising budget on TV channels of ₹ 5 Cr. had taken up the marketing of a new product. It was assumed that the company would have a turnover of ₹ 30 Cr. from the new product. The Company had debited to its Profit & Loss Account the total expenditure of ₹ 5 Cr. incurred on special advertisement for the new product.

As per AS-26, discuss whether the accounting treatment given by the Company is correct. 4

(ii) Net profit for the year 2014: ₹ 6,00,000

Weighted average number of equity share outstandings during the year 2014: 2,50,000

Average fair value of one equity share during the year 2014: ₹ 20

Weighted average number of shares under option during the year 2014: 50,000

Exercise price for shares under option during the year 2014: ₹ 15

Calculate Basic & Diluted Earnings per share for the year 2014. 4

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

(a) (i) Jatin Ltd. was merged with Naitik Ltd. with effect from 01.04.2015. Summarised Balance Sheets of Naitik Ltd. and Jatin Ltd. as on 31.03.2015 are as follows:

Balance Sheets as on 31.03.2015

(₹ in 000)

Liabilities	Naitik Ltd.	Jatin Ltd.	Assets	Naitik Ltd.	Jatin Ltd.
Share Capital:			Sundry Fixed Assets (Tangible)	2100	850
Equity Share of ₹ 10 each	1500	600	Investments (Non-trade)	360	90
General Reserve	600	130	Stock	250	90
Profit & Loss A/c	420	140	Debtors	240	110
Export Profit Reserve	150	90	Bills Receivables	45	20
Sundry Creditors	70	90	Cash and Bank balances	230	95
Provision for Taxation	220	115	Preliminary Expenses	25	20
Proposed Dividend	290	110			
	3250	1275		3250	1275

Non-trade investments of Naitik Ltd. fetched @ 20%, while those of Jatin Ltd. fetched @ 15%. Profit (pre-tax) by Naitik Ltd. and Jatin Ltd. during 2012-13, 2013-14 and 2014-15 were as follows:

Years	Naitik Ltd.	Jatin Ltd.
	₹	₹
2012-13	11,00,000	2,38,000
2013-14	12,65,000	3,10,000
2014-15	13,70,000	2,80,000

Goodwill may be calculated on the basis of capitalization method, taking 15% as the pre-tax normal rate of return.

Purchase consideration is discharged by Naitik Ltd. on the basis of intrinsic value per share.

You are required to calculate the purchase consideration and pass the necessary journal entries in the books of Naitik Ltd. 12

(ii) Vikash Ltd. resolved by a special resolution to buy-back its 5,00,000 equity shares of ₹ 10 each (paid up value ₹ 8) at a premium of ₹ 15 per share. At the time of buy-back the following balances appeared in its books:

	₹
Securities Premium Account	60,00,000
General Reserve Account	50,00,000
Profit and Loss Account (Cr.)	45,00,000

The company utilized the whole of the securities premium for buy-back purpose.

You are required to pass the necessary journal entries in the books of the company. 4

(b) (i) The following particulars relate to Kovid Limited Company which has gone into voluntary liquidation:
Share capital issued:
10,000 Preference shares of ₹ 100 each fully paid up
1,00,000 Equity shares of ₹ 10 each fully paid up
1,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up
60,000 Equity shares of ₹ 10 each, ₹ 5 paid up

Assets realized ₹ 53,34,136 excluding the amount realized by sale of securities held by partly secured creditors.
Other details are as follows:

	₹
Preferential creditors	1,45,600
Unsecured creditors	31,00,000
Partly secured creditors (Assets realized ₹ 3,20,000)	5,50,000
Debenture-holders having floating charge on all assets of the company	7,75,000
Expenses of liquidation	19,400

You are required to prepare the Liquidator's Final Statement of Account, allowing for his remuneration @ 3% on all assets realized and 2% on the amount paid to unsecured creditors, including preferential creditors. 10

(ii) Enumerate the arguments against Segmental Reporting. 3

(iii) State the guidelines which need to be followed for accounting of Employees Stock Option Plans. 3

(c) (i) Following details are provided by Patasha Ltd:

Particulars	31.03.2015 (₹)	31.03.2014 (₹)
Liabilities:		
Share Capital	25,00,000	22,00,000
General Reserve	4,00,000	3,50,000
Profit and Loss Account	3,00,000	1,50,000
Debentures	5,00,000	3,00,000
Provision for taxation	2,00,000	1,50,000
Proposed dividend	4,00,000	3,50,000
Trade payables	9,00,000	11,50,000
	52,00,000	46,50,000
Assets:		
Plant and Machinery	15,00,000	11,00,000
Land and Building	10,00,000	8,00,000
Investments (Non trading)	3,00,000	1,50,000
Trade receivables	9,00,000	10,50,000
Inventories	10,00,000	12,00,000
Cash on hand/Bank	5,00,000	3,50,000
	52,00,000	46,50,000

(1) Depreciation @15% was charged on the opening value of Plant and Machinery.
(2) At the year end,one old machine costing ₹ 1,50,000 (WDV ₹ 70,000) was sold for ₹ 1,10,000. Purchase was also made at the year end.
(3) ₹ 1,20,000 was paid towards Income tax during the year.
(4) ₹ 15,000 received as interest on investment during the year.
(5) Building under construction was not subject to any depreciation.

You are require to prepare Cash Flow Statement as per AS-3. 10

(ii) Seth Co. Ltd. issued 20,000 shares which were underwritten as :

Ram : 12,000 shares, Raghu : 5,000 shares and Ravi : 3,000 shares.

The underwriters made applications for firm underwriting as follows:

Ram: 1,600 shares; Raghu: 600 shares; Ravi: 2,000 shares. The total subscriptions excluding firm underwriting (including marked applications) were 10,000 shares.

The marked applications were: Ram: 2,000 shares; Raghu: 4,000 shares; Ravi: 1,000 shares.

Show the net liability of underwriters (number of shares). 6

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

(a) Comment on the following: 4×4=16
  (i) An audit process involves significant collection of evidences.
  (ii) Operational audit is merely an extension of Internal Audit.
  (iii) There is no need to design better internal controls in an EDP or computerised system.
  (iv) Internal check is a part and parcel of internal control.

(b) (i) What are the advantages of joint audit? 8
  (ii) Briefly explain the audit working paper files. 4
  (iii) Tabulate the differences between Clean Audit Report and Qualified Audit Report. 4

(c) (i) As an auditor of a company , how will you verify 'patents' appearing in the financial statements of the company? 4
  (ii) Distinguish between Statutory Audit and Government Audit. 4
  (iii) State the disqualifications of a company auditor. 4
  (iv) What do you understand by Teeming and Lading with respect to misappropriation of cash? Explain the procedure that auditor has to follow for its timely detection. 4