Paper 12 - Company Accounts & Audit

Full Marks: 100

Section A

(1) Answer the following (compulsory) [2x2=4]

(i) Distinguish between Monetary items and Non – Monetary Items.

(ii) Write short notes on accounting for Risk-Sharing Plans.

(2) Answer any two Questions [2x8=16]

(a) B Ltd wishes to obtain a Machine Tool Costing ₹20 Lakhs by way of lease. The effective of life of the machine tool is 12 years but the Company required it only of the first five years. It enters into an agreement with M Ltd for a lease rental of ₹2 Lakhs p.a.

B Ltd is not sure about the treatment of these lease rentals, and hence requests your assistance in proper disclosure of the same. Assume Implicit Rate of Interest at 15%. PV Factors are: 0.87, 0.76, 0.66, 0.57 and 0.50. **[8]**

(b) In a reporting period (calendar Year), Pathanga Ltd, a listed Company, announced a scheme to buyback a maximum of 5% of its Equity Shares (of ₹10 each) at a price of ₹25 per Share. The market price of the Shares immediately prior to the buyback is ₹22. The following additional information is given. Compute the Basic EPS.

Particulars	This year	Last year
Net Profit	₹8,00,000	₹6,00,000
Number of Shares of January 1	1,00,000	1,00,000
Bought – back and cancelled on September 30	(4,000)	
Number of Shares at December 31	96,000	1,00,000

[8]

(c) (i) Due to the contribution of Great Men Ltd to the Society, the State Government has given a product licence at a nominal consideration of ₹40 lakhs. The market price of the license is however ₹3 Corres. The Company incurred ₹4 lakhs as expenditure in registration and initial operation of the licence. At what price should the license be recorded? **[4]**

(ii) Foreign Currency Debtors at the end of the Financial Year are USD 10 Lakhs. Sales were recorded at the exchange rate USD 1 = 43.80. On the Balance Sheet date, the exchange rate is USD 1 = ₹46 which is not expected to be realised on the collection date. It has been estimated that around the collection time, the exchange rate will possibly be in the range of USD 1 = ₹45.50 to ₹45.80. At what value should the Debtors be recorded in the Balance Sheet? What is the treatment of unrealised foreign exchange gain? **[4]**

Section B

(3) Answer the following (compulsory) [4x2=8]

(i) Write short notes on Creditors' Voluntary Winding up.

(ii) Explain the disclosure requirement of Short term Borrowings.

(iii) Explain the disclosure requirement of Non-Current Investments.

(iv) What are the types of Cash flow statement?

(4) Answer any two Questions [2x16=32]

(a) Give journal entries for the following:

i) DK Ltd. forfeited 20,000 equity shares of ₹10 each for non payment of first call of ₹2 and final call of ₹3 per share. These shares were reissued at a discount of ₹3.50 per share.

ii) TP Ltd. forfeited 30,000 equity shares of ₹15 each (including ₹5 per share as premium), for non payment of final call of ₹3 per share. Out of these 15,000 shares were reissued at a discount of ₹4 per share.

iii) TP Ltd. forfeited 7,500 equity shares of ₹15 each (including ₹5 per share as premium), for non payment of allotment money ₹8 (including premium money) and first & final call of ₹5 per share. Out of these 5,000 shares were reissued at ₹14 per share.

iv) DK Ltd. forfeited 10,000 equity shares of ₹10 each issued at a discount of ₹1 per share, for non payment of first call of ₹2 and final call of ₹3 per share. Out of these 6,000 shares were reissued at ₹8 per share and the balance shares were re-issued at ₹7 per share. **[16]**

(b) It has been decided that A Ltd. will absorb the entire undertaking of B Ltd. and C Ltd. as on 1.4.2010. The outside shareholders in the latter companies are to be issued equity shares in A Ltd. on the basis of an agreed issue price of ₹200 per share. For this purpose, the interests of such shareholders are to be determined according to the intrinsic values of the shares of the respective companies. D Ltd. is a subsidiary of C Ltd. and is also to be merged into A Ltd. appropriately.

The Balance Sheets of the companies as at 31.3.2013, stood as under:

(₹ in Lakhs)

	A	B	C	D
Sources of Funds:				
Share capital				

Equity shares @ ₹100 each	1,500	1,000	800	400
Reserves	2,000	540	702	400
Loans	1,600	900	1,000	700
Total	5,100	2,440	2,502	1,500

(₹ in Lakhs)

	A	B	C	D
Application of Funds:				
Land	200	100	50	10
Buildings	500	400	100	200
Machinery	1,500	800	500	500
Other Fixed Assets	400	100	200	50
Investments				
4 lakhs shares of B	500	-	-	-
2 lakhs shares of C	300	-	-	-
4 lakhs shares of D	-	-	400	-
Others	100	-	-	-
Net Current Assets	1,600	1,040	1,252	740
Total	5,100	2,440	2,502	1,500

Note: Loans assumed to be of less than 12 months hence treated as short term borrowing (ignoring interest)

For the purpose of the scheme, it is agreed to give effect to the following value appreciations of the assets of the companies to be absorbed.

Land	-	100%
Buildings	-	50%
Machinery	-	20%

In order to obtain the consent of the creditors of C Ltd., it becomes necessary to accept a claim of ₹20 lakhs hitherto classified as contingent. 60% of the claim is accepted by C Ltd. and the balance is to be settled by A Ltd.

You are required to:

i. Compute the number of shares to be issued by A Ltd. to eligible outsiders
ii. Show journal entries.
iii. Draft the Balance sheet of A Ltd. after the absorption. **[16]**

(c) The following was the Balance Sheet of A Limited as on 31.3.2013:

Balance Sheet of A Limited as at 31.3.2013

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
14%, 80,000 preference shares of		Land	80,000

₹100 each fully paid up	8,00,000	Buildings	3,20,000
16,000 equity shares of ₹100 each,		Plant and Machinery	10,80,000
₹60 per share paid up	9,60,000	Patents	80,000
Reserves and Surplus	NIL	Investments	NIL
Secured Loans		Current assets, loans and advances	
1. 14% debentures	4,60,000	A. Current Assets	
(Having a floating charge		Stock at cost	2,00,000
on all assets)		Sundry debtors	4,60,000
Interest accrued on above		Cash at bank	1,20,000
debentures	64,400	B. Loans and Advances	NIL
(Also having a floating		Miscellaneous expenses	
charge as above)		Profit and Loss A/c	4,80,000
2. Loan on mortgage of land			
and building	3,00,000		
Unsecured Loan	NIL		
Current Liabilities and provisions			
3. Current liabilities			
Sundry creditors	2,35,600		
	28,20,000		28,20,000

On 31.3.2013 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Sundry creditors include preferential creditors amounting to ₹60,000.

The assets realised the following sums

Land ₹ 1,60,000; Buildings ₹ 4,00,000; Plant and machinery ₹ 10,00,000; Patent ₹ 1,00,000; Stock ₹3,20,000; Sundry debtors ₹ 4,00,000.

The expenses of liquidation amounted to ₹58,868. The liquidator is entitled to a commission of 2% on all assets realised (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments on the 30th June, 2013. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account. **[16]**

Section C

(5) Answer the following (compulsory) [4x2=8]

(i) What are the differences between statutory audit and forensic audit?

(ii) Explain the advantages of Cost Audit.

(iii) Give a brief notes on advantages of Audit Programme.

(iv) Explain the significance of Opening paragraph.

(6) Answer any one Question [1x8=8]

(i) State the differences between Audit Report and Audit Certificate. **[8]**

(ii) What are the rights of Companies retiring auditor? **[8]**

(7) Answer any two Questions [2x12=24]

(a) (i) Explain the basic elements of an Internal Control. **[8]**

(ii) "Auditor's assessment of materiality may be different of the time of planning the engagement than at the time of evaluating the results of his audit procedures". Comment **[4]**

(b) (i) Give a brief difference between Internal Audit, Internal Control and Internal check. **[8]**

(ii) Summarize the auditor's duties in applying analytical procedures. **[4]**

(c) What are the steps involved in the audit of an "Educational Institution"? **[12]**