Paper 12 - Company Accounts & Audit

Full Marks: 100

Section A

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

(i) Differentiate between Reporting Currency and Foreign Currency.

(ii) Define Financial Assets and Financial Liability as per AS 20.

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

(a) Explain the objective of Financial Statements. **[8]**

(b) (i) Compute Basic Earnings Per Share from the following information –

Date	Particulars	No. of Shares
1st April 2011	Balance at the beginning of the year	1,500
1st August 2011	Issue of Shares for Cash	600
31st March 2012	Buy back of Shares	500

Net Profit for year ended 31st March 2012 was ₹2,75,000. **[4]**

(ii) Discuss the accounting treatment for Operating Leases in the Financial statements of Lessor. **[4]**

(c) Write short notes on recognition of Past Service Cost. **[8]**

Section B

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

(i) Explain the disclosure requirement of Deferred tax assets.

(ii) Explain the disclosure requirement of Intangible assets under development.

(iii) What is meant by List B of Contributories?

(iv) What are the disclosure requirements of reportable segment under AS 17?

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

(a) On 1st April 2009, Gravity Ltd. issued 442, 10% Debentures of ₹ 1000 each at a discount of 10% redeemable at a premium of 5% after 4 years. It was decided to create a Sinking Fund for the purposes of accumulating sufficient funds to redeem the Debentures and to invest in some radily convertible securities yielding 10% interest p.a. Reference to the table shows that ₹1.00 p.a. at 10% compound interest amounts to ₹4.641 in 4 years. Investments are to be made in the Bonds of ₹1000 each available at par.

On 31st March 2013, the investments realised ₹3,40,000 and debentures were redeemed. The bank balance as on that date was ₹50,000.

Required: Prepare Debenture Redemption Fund Account and Debenture Redemption Fund Investments Account for 4 years. **[16]**

(b) Given below is the Extract Trial Balance of Ramesh Ltd. and Dinesh Ltd. as on 31.3.2013. Dinesh Ltd. was merged with Ramesh Ltd. with effect from 01.04.2013.

Trial Balance (Extract) as on 31.3.2013 (₹)

Particulars	Ramesh Ltd.		Dinesh Ltd.	
	Dr.	Cr.	Dr.	Cr.
Equity Shares of ₹ 10 each		14,00,000		5,00,000
General Reserve		7,00,000		2,40,000
Profit and Loss A/c		4,20,000		1,30,000
Export Profit Reserve		1,40,000		80,000
12% Debentures		2,00,000		2,00,000
Sundry Creditors		80,000		90,000
Provision for Taxation		2,00,000		1,20,000
Proposed Dividend		2,80,000		1,00,000
Sundry Fixed Assets (Tangible)	19,00,000		8,00,000	
Investments (Non-trade)	4,00,000		1,00,000	
Stock (opening)	2,40,000		1,00,000	
Debtors	1,50,000		1,60,000	
Advance Tax	1,60,000		40,000	
Cash and Bank balances	5,50,000		2,60,000	
Preliminary Expenses	20,000			
Total	34,20,000	34,20,000	14,60,000	14,60,000

Closing Stock of Ramesh and Dinesh is also ₹2,40,000 & ₹1,00,000 respectively. Ramesh Ltd. would issue 12% Debentures to discharge the claims of the debenture holders of Dinesh Ltd. at par. Non-trade investments of Ramesh Ltd. fetched @ 25% while those of Dinesh Ltd. fetched @ 18%. Profit (pre-tax) by Ramesh Ltd and Dinesh Ltd. during 2010-11, 2011-12 and 2012-13 and were as follows:

Year Ramesh Ltd. Dinesh Ltd.

	₹	₹
2010-11	10,00,000	3,00,000
2011-12	13,00,000	4,20,000
2012-13	11,50,000	3,60,000

Goodwill may be calculated on the basis of capitalisation method taking 20% as the pre-tax normal rate of return. Purchase consideration is discharged by Ram Ltd. on the basis of intrinsic value per share. Both companies decided to cancel the proposed dividend.

Required: Balance Sheet of Ramesh Ltd. after merger. **[16]**

(c) The following is the Trial Balance of "Tarun Ltd". as on 30.09.2012: (Amount in ₹)

Particulars	Dr.	Cr.
11% Preference Shares of ₹10 each		2,00,000
20,000 Equity Shares of ₹10 each, fully paid		2,00,000
10,000 Equity Shares of ₹ 10 each, ₹ 7.50 paid		75,000
13% Debentures		3,00,000
Mortgage Loan		1,60,000
Bank Overdraft		60,000
Creditors for Trade		64,000
Arrears of Income tax (Assessments concluded in July 2004)		
Assessment Year 2010-2011 - 42,000 Assessment Year 2011-2012 - 10,000		52,000
Land and Building	2,40,000	
Sundry Current Assets	7,90,000	
Profit & Loss Account	77,000	
Debenture Issue expenses not written off	4,000	
Total	11,11,000	11,11,000

Other Information

- Mortgage Loan was secured against Land and Buildings. Debentures were secured by a Floating Charge on all the other assets.
- The Company was unable to meet the payments and therefore the Debenture holders appointed a Receiver and this was followed by a resolution for Members' Voluntary Winding Up.
- The Receiver for the Debenture holders brought the Land and Buildings to auction and realized ₹3,00,000. He also took charge of Sundry Assets of the value of ₹4,80,000 and realized ₹4,00,000.
- The Liquidator realized ₹2,00,000 on the sale of the balance of Sundry Current Assets.
- The Bank Overdraft was secured by a personal guarantee of two of the Directors of the Company and on the Bank raising a demand, the Directors paid off the dues from their personal resources.
- Costs incurred by the Receiver were ₹ 4,000 and by the Liquidator ₹ 5,600.

- The Receiver was not entitled to any remuneration but the Liquidator was to receive 3% Fee on the value of assets realized by him.
- Preference Shareholders had not been paid dividend for the period after 30.9.2010 and interest for the last half-year was due to Debenture holders.

From the above information, prepare the Liquidator's Receipts and Payments Account. **[16]**

Section C

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

(i) State the advantages of Social audit.

(ii) Explain the difference between a checklist and an Internal Control questionnaire.

(iii) Explain the difference between Test Check and Statistical Sampling.

(iv) What types of analysis are covered by analytical procedures?

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

(i) What are the matters should be considered by the auditor of the company while doing audit of Charitable Institutions? **[8]**

(ii) What are the scope of Audit Committee of the company?

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

(a) How to verify the following – **[3x4 = 12]**

(i) Verification of Contingent Liability
(ii) Verification of Plant & Machinery
(iii) Freehold Land & Building

(b) (i) Explain the features and Scope of an Internal Audit. **[6]**

(ii) What are the difference between Internal Audit and External Audit? **[6]**

(c) (i) On the audit of Dreamlight Ltd. the audit partner of the engagement set the preliminary level of audit materiality at ₹12,00,000. After, the partner reviewed the audit of senior's assessment of inherent risk, he decided that the materiality level should be increased to ₹18,00,000.

Required:

A. What is the relationship between materiality and audit risk?

B. How will this new level of materiality affect the nature and extent of auditing procedures?

[8]

(ii) Explain the difference between Qualified Report and Adverse Report. **[4]**