

# MTP\_Intermediate\_Syllabus 2012\_Dec2014\_Set 1

## Paper – 12: Company Accounts and Audit

Full Marks: 100

Time Allowed: 3 Hours

This paper contains 4 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) What we understand by the term "Reliability"?

(b) Exchange Rate

Goods purchased on 24.3.13 of US \$1,00,00	₹46.60
Exchange rate on 31.3.13	₹47.00
Date of actual payment 5.6.14	₹47.50

Calculate the loss/gain for the financial years 2012-13 and 2013-14.

(c) A company is planning to raise funds by making right issue of equity shares to finance its expansion. The existing equity share capital of the company is ₹50,00,000. The market value of its share is ₹42. The company offers to its shareholders the right to buy 2 shares at ₹11 each for every 5 shares held. Calculate theoretical market price of one share after right issue.

(d) What is the meaning of the expression 'cash equivalent'?

(e) List the accounts/reserves whose profit is not available for payment of dividend.

(f) Goodwill arising on acquisition as per AS-14 is to be treated as per AS-26. Comment.

(g) State the uses of Interim Audit.

(h) What do you mean by the term "Tolerable Error"?

(i) List the quality control procedures to be adopted at the individual audit level.

(j) Define 'Opinion Paragraph' of the Auditors' Report.

### 2. (Answer any 2 questions)

(a) (i) List the five criteria that an auditor must adhere to claim that the financial statements are fairly presented in accordance with GAAP. [5]

(ii) Guri Ltd. took a factory premises on lease on 01.04.11 for ₹2,00,000 per month. The lease is operating lease. During March, 2012, Guri Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2014. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2014 should be provided in the accounts for the year ending 31.03.2012. What should Guri Ltd. do? [3]

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- (b) (i)** AD Ltd. received a revenue grant of ₹1000 lakhs during the year 2011-12 from Government for welfare activities to be carried on by the company for its employees. The grant prescribed the condition for utilization, however during 2013-14 it was found that the condition of grant was not complied with and the grant had to be refunded to the Government. How this refund should be shown in the financial statement for the year 2013-14? **[2]**

- (ii)** The following information is available in respect of Rise Ltd. for the accounting year 2012-13 and 2013-14:

Net profit for		₹
Year	2012-13	22,00,000
Year	2013-14	30,00,000

Number of shares outstanding prior to right issue 10,00,000 shares.

Right issue: One new share for each five shares outstanding i.e. 2,00,000 shares.

- : Right issue price ₹ 25
- : Last date to exercise right 31st July, 2013.

Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 is ₹ 32.

You are required to compute:

- (i) Basic earnings per share for the year 2012-13.
- (ii) Restated basic earnings per share for the year 2012-13 for right issue.
- (iii) Basic earnings per share for the year 2013-14. **[6]**

- (c) (i)** A pharma company spent ₹35 lakhs during the accounting year ended 31.03.2013 on research project to develop a drug to treat 'AIDS'. Experts are of the view that it may take four years to establish whether the drug will be effective or not, and even if found effective, it may take two or three more years to produce the medicine, which can be marketed. The company wants to treat the expenditure as deferred revenue expenditure. Comment. **[6]**

- (ii)** Define Contingent Rent as per AS-19. **[2]**

### 3. (Answer any 2 questions)

**(a) (i)** P company issued 1,50,000 shares of ₹10 each at a premium of ₹10. The entire issue was underwritten as follows:

X – 90,000 shares (Firm Underwritten 12,000 shares)

Y – 37,500 shares (Firm Underwritten 4,500 shares)

Z – 22,500 shares (Firm Underwritten 15,000 shares)

Total Subscriptions received by the company (excluding Firm Underwriting and Marked Applications) were 22,500 shares. The marked applications (excluding Firm Underwriting) were as follows:

X – 15,000 shares

Y – 30,000 shares

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Z – 7,500 shares

Commission Payable to Underwriters is at 5% of the Issue Price. The Underwriting contract provides that credit for Unmarked Applications be given to the Underwriters in proportion to the shares underwritten, and benefit of Firm Underwriting is to be given to Individual Underwriters.

Required:

- Determine the Liability of each Underwriter (Number of Shares)
- Compute the amounts payable or due from Underwriters.

**[8]**

**(ii)** The position of a company on its liquidation is as under:

1. Issued and Paid Up Capital:

2,000 11% preference Shares of ₹100 each fully paid.

2,000 Equity Shares of ₹100 each fully paid.

1,500 Equity Shares of ₹50 each, ₹30 per share paid.

2. Calls in Arrear are ₹5,000 whereas calls received in advance is ₹4000.

3. Preference Dividends are in arrear for one year.

4. Amount left with the liquidator after discharging all liabilities is ₹3,01,000.

5. The Company's Articles provide for payment of arrear Preference Dividends in priority to return of Equity Capital.

You are required to prepare the Liquidator's Final Statement of Accounts, with the above information.

**[8]**

**(b) (i)** A Ltd. had issued 11% 5,00,000 debentures of ₹100 each redeemable on 31<sup>st</sup> March 2014 at a premium of 5%.

The company offered three options to debenture holders as under:

i. 13% Preference shares of ₹10 each at ₹10.50

ii. 14% debentures of ₹100 at par.

iii. Redemption in cash.

The options were accepted as under.

Option i. By holders of 1,00,000 debentures.

Option ii. By holders of 1,00,000 debentures.

Option iii. By holders of 3,00,000 debentures.

The company carried out the redemption. Pass the necessary journal entries.

**[4]**

**(ii)** List the expenses that are not included in Segment expense as per AS-17.

**[5]**

**(iii)** Rana Limited was incorporated on August 1, 2013. It had acquired a running business of Rana & Co. with effect from April 1, 2013. During the year 2013-14, the total sales were ₹36,00,000. The sales per month in the first half year were half of what they were in the later half year. The net profit of the company, ₹2,00,000 was worked out after charging the following expenses:

(i) Depreciation ₹1,23,000, (ii) Director's fees ₹50,000, (iii) Preliminary Expenses ₹12,000, (iv) office expenses ₹78,000, (v) Selling Expenses ₹72,000 and (vi) Interest to vendors upto August 31, 2013 ₹5,000.

Please ascertain pre-incorporation and post-incorporation profit for the year ended 31<sup>st</sup> March, 2014.

**[7]**

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**(c) (i)** List the conditions to be satisfied for Amalgamation in the nature of merger. **[6]**

**(ii)** The following is the Balance Sheet of Astar Ltd. as at 31.03.2013

Liabilities	Amount (₹ in Lakhs)
10% Redeemable Pref. Shares of ₹ 10 each, fully paid	2,500
Equity Shares of ₹10 each, fully paid	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit and Loss A/c	300
9% Debentures	5,000
Sundry Creditors	2,300
Sundry Provisions	1,000
	26,900

Assets	Amount (₹ in Lakhs)
Fixed Assets	14,000
Investments	3,000
Cash at Bank	1,650
Other Current Assets	8,250
	26,900

On 1st April, 2013 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹ 20 per share. In order to make cash available, the company sold all the investments for ₹ 3,150 lakh and raised a bank loan amounting to ₹ 2,000 lakhs on the security of the company's plant.

Pass Journal Entries for all the above mentioned transactions including Cash transactions. The amount of securities premium has been utilised to the maximum extent allowed by law. **[10]**

#### **4. (Answer any 2 questions)**

**(a) (i)** 'Both audit and investigation involve a systematic and critical examination of the available evidence, yet these are quite distinct from each other.' - Justify. **[7]**

**(ii)** 'An independent opinion by the statutory auditor increases the reliability, authenticity and credibility of the Financial Statements which may further be used by different users for various purposes.' - List the purposes. **[9]**

**(b) (i)** List the precautions that the auditor must take before he applies test checking for auditing. **[6]**

**(ii)** 'An effective system of internal control should have some basic elements.' - Discuss. **[7]**

**(iii)** List the general principles of vouching as well as auditing. **[3]**

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- (c) (i)** State the procedure that an auditor has to follow for timely detection of teeming and lading. **[6]**
- (ii)** Discuss the disqualification of company auditor under section 226(3) of Companies Act, 1956. **[6]**
- (iii)** List the objectives and functions of the Auditing and Assurance Standard Board. **[4]**