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) The carrying amount of an asset given on sale and leaseback that results in an operating lease is ₹20,000. The fair value and the selling price of the asset at inception of the lease is ₹18,000. Give the accounting treatment in the books.

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

(c) An entity has granted mobilisation advance to the contractors amounting to ₹40 lacs. How should the entity classify this advance as current and non-current?

(d) Foreign currency creditors at the end of the financial year are USD 10 Lakhs. Purchase were recorded at the exchange rate USD 1= ₹62. On the balance sheet date, the exchange rate is USD 1 = ₹64 which is not expected to be payable on the payment date. It has been estimated that around the payment time, the exchange rate will possibly be in the range of USD 1 - ₹65.00 to ₹66.50. At what value should the creditors be recorded in the balance sheet? What is the treatment of foreign exchange loss?

(e) The share capital of M Ltd. consists of 1,00,000 equity shares of ₹10 each, and 25,000 preference shares of ₹100 each, fully called up. Besides, its securities premium account shows a balance of ₹40,000 and general reserve of ₹7,00,000. The company decides to buy-back 30,000 equity shares of ₹12 each. For this purpose, it utilises the securities premium in full and general reserve to the extent necessary.

Pass the necessary journal entries only showing the effects on the securities premium account and the general reserve account.

(f) Journalise the following transaction:

FD Ltd. issued 8,000 shares of ₹100 each credited as fully paid to the promoters for their services.

(g) Discuss the disadvantages of surprise checks in an audit.

(h) Explain the difference between a checklist and an Internal Control Questionnaire.

(i) According to Sec 227(1) of the Companies Act, 1956, the auditor can call for any explanations or information from the officers and employees of the company. Is it true? Give reason.

(j) Discuss the necessity of Continuous Audit.

2. (Answer any 2 questions)

(a) (i) List the rate of exchange to be adopted for translation of the following items while translating the financial statement of a non-integral foreign operation:

- Depreciation;
- Salaries and wages;
- Opening Stock;
- Closing Stock;
- Debtors;
- Fixed assets (these were acquired out of funds raised from issue of equity shares);
- Accounts payable;
- Provision for taxes. **[4]**

(ii) X Ltd. sold its plant to Y Ltd. (a lease financer). The written down value of the plant in X Ltd.'s book is ₹100 million and selling price is ₹120 million. The plant is taken back on lease.

What are the accounting issues involved? **[4]**

(b) Calculate the basic and diluted EPS:

(i) Income after tax ₹ 54,00,000

(ii) Weighted average number of equity shares outstanding is 1,20,000 shares

(iii) Tax rate 30%

(iv) Option to purchase 20,000 equity shares at ₹ 48 per share. The options were outstanding all year.

(v) Option to purchase 25,000 equity shares at ₹ 18 per share. The average market price of equity share during the year was ₹ 70

(vi) 12% convertible bonds, 500 bonds, each convertible into 10 equity shares. The bonds were outstanding during the entire year. The bonds were issued at par ₹1000 per bond and no bonds were converted during the year.

(vii) 8% Convertible cumulative preferred stock per ₹100, 8000 shares issued and outstanding the entire year. Each preferred share is convertible into one equity share. The preferred share was issued at par and no shares were converted during the year. **[8]**

(c) (i) A Fixed asset purchased for ₹20 lakhs, Govt. grant is received ₹8 lakhs (useful life is 4 years, residual value ₹4 lakhs) grant becomes refundable in 3rd year to the extent of ₹6 lakhs. Show accounting under different alternatives assuming SLM method of depreciation. **[4]**

(ii) Discuss the use of the General Purpose Financial Statement. **[4]**

3. (Answer any 2 questions)

(a) (i) A limited Company was registered with a capital of ₹ 5,00,000 in share of ₹ 100 each and issued 2,000 such shares at a premium of ₹ 20 per share, payable as ₹ 20 per share on application, ₹ 50 per share on allotment (including premium) and ₹ 20 per share on first call made three months later. All the money payable on application, and allotment were duly received but when the first call was made, one shareholder paid the entire balance on his holding of 30 shares, and another shareholder holding 100 shares failed to pay the first call money.

Required:
Give Journal entries to record the above transactions. **[9]**

(ii) A Company has its Share Capital divided into Shares of ₹10 each. On 1st April 2013, it granted 20,000 Employees' Stock Options at ₹ 40, when the Market Price was ₹ 130. The Options were to be exercised between 1st January 2014 to 15th March 2014. The Employees exercised their Options for 18,500 Shares only, the remaining options lapsed. The Company closes its books on 31st March every year. Pass Journal Entries with regard to Employees' Stock Option. **[4]**

(iii) Discuss the disclosure requirement of debit balance in the Statement of Profit and Loss and in Reserve and Surplus under Revised Schedule VI. **[3]**

(b) HHH Ltd. made a public issue of 1,25,000 equity shares of ₹ 100 each, ₹ 50 payable on application. The entire issue was underwritten by four parties—A, B, C and D in the proportion of 30%, 25%, 25% and 20% respectively. Under the terms agreed upon, a commission of 2% was payable on the amounts underwritten.
A, B, C and D had also agreed on "firm" underwriting of 4,000, 6,000, Nil and 15,000 shares respectively.
The total subscriptions, excluding firm underwriting, including marked applications were for 90,000 shares. Marked applications received were as under:

A 24,000	C 12,000	B 20,000	D 24,000

Required: Ascertain the liability of the individual underwriters
Approach I — If benefit of firm underwriting is given to individual underwriters.
Approach II — If the benefit of firm underwriting is not given to individual underwriter. **[16]**

(c) (i) TQM Ltd. group has three divisions T, Q, M. details of their turnover, results and net assets are given below:

	(₹ in lakhs)
Division T	
Sale to Q	3,050
Other sales (Home)	60
Export sales	4,090
	7,200
Division Q	
Sale to M	30
Export sales to Europe	200
	230
Division M	
Export sales to America	180

		Division		
	Head Office	T	Q	M
	(₹ in lakhs)	(₹ in lakhs)	(₹ in lakhs)	(₹ in lakhs)

Operating Profit or loss before tax		160	20	(8)
Re-allocated cost from Head Office		48	24	24
Interest cost		4	5	1
Fixed assets	50	200	40	120
Net current assets	48	120	40	90
Long-term liabilities	38	20	10	120

Prepare a segmental Report for publication in TQM Ltd. Group. **[10]**

(ii) The Balance Sheet of A Ltd. as on 31st December was as follows:

EQUITY & LIABILITIES	₹
Shareholders' funds	
Share Capital:	
8,000 Preference shares of ₹10 each 80,000	
1,200 Equity shares of ₹10 each 1,20,000	2,00,000
Reserves and Surplus – P/L A/c	(58,000)
Non- current liabilities	
Bank Loan	4,00,000
8% Debentures	1,00,000
Current liabilities	
Trade payables	
Sundry Creditors	2,00,000
Other current liabilities	
Interest Outstanding on Debentures	8,000
Total	8,50,000
ASSETS	
Non-current assets	
Fixed Assets	
Land and Building	25,000
Other Fixed Assets	2,00,000
Current assets	
Inventories — Stock	5,25,000
Trade Receivables — Debtors	1,00,000
Total	8,50,000

The company went into liquidation on that date. Prepare Liquidator's Statement of Account after taking into account the following:

- Liquidation Expenses and Liquidator's Remuneration amounted to ₹3,000 and ₹10,000 respectively.
- Bank Loan was secured by pledge of stock.

- Debenture and Interest thereon are secured by a floating charge on all assets.
- Fixed assets were realized at book value, and current assets at 80% of book values. **[6]**

4. (Answer any 2 questions)

(a) (i) Difference between Statutory Audit and Government Audit. **[6]**

(ii) Discuss — Social Audit. **[5]**

(iii) "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. **[5]**

(b) What are the essential features of a good Internal Audit Report? **[10]**

(ii) In XYZ LTD, F a junior accountant was given additional responsibility of making recoveries from the debtors. On one occasion, when an insurance claim of ₹85,000 was received, he credited the same to the account of a debtor and misappropriated the cash which he had recovered from the said debtor. Pinpoint weaknesses in the internal control system which led to this situation. **[6]**

(c) (i) Write a note on Annual Audit. **[5]**

(ii) Discuss the types of Internal Control. **[8]**

(iii) Operational audit is merely an extension of Internal Audit, comment. **[3]**