Paper – 12: Company Accounts and Audit

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL B	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence

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]

(i) Profit before VRS payments but after depreciation is ₹75 crore, Depreciation is ₹10 crore, VRS payments is ₹32.10 crore, Provision for taxation is ₹10 crore, and Paid up share capital (Shares of ₹10 each fully paid) is ₹93 cr. From the above information calculate Earnings per Shares (EPS).

Answer:

Particulars		**₹ in Crores**
Profit after depreciation but before VRS payment		75.00
Less: VRS payments	32.10	
Provision for taxation	10.00	42.10
Net Profit available for equity Shareholders		32.90
Number of Equity Shares		9.30
EPS = $\frac{\text{Net Profit}}{\text{No. of Shares}} = \frac{32.90}{9.30}$ = ₹ 3.54 per Shares		

(ii) The liquidator of company is entitled to a remuneration of 2% on Assets realised, and 3% on the amount distributed to unsecured creditors. The Assets realised ₹10,00,000. Amount to Unsecured Creditors before paying Liquidators Remuneration is ₹4,12,000. Calculate total Liquidator Remuneration.

Answer:

Particulars	**Computation**	**₹**
2% on Assets realised	₹ 10,00,000*2%	20,000
3% on Amount to Unsecured Creditors	₹ 4,12,000*3/103	12,000
Total Liquidator Remuneration		32,000

(iii) Distinguish between Monetary items and Non Monetary items.

Answer:

Basis	**Monetary items**	**Non Monetary Items**
Meaning	They are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.	They are assets and liabilities other than monetary items.
Examples	Cash, Receivables and Payables.	Share Capital, Fixed Assets, Inventories, Investments in Equity Shares, etc.

(iv) Distinguish between Amalgamation and Acquisition.

Basis	Amalgamation	Acquisition
Meaning	It means an amalgamation pursuant to the provisions of the Companies Act, or any other applicable statue.	Acquisitions arise when there is a purchase by one company of whole or part of the Shares or Assets of another company.
AS-14	Applicable.	Not Applicable.

(v) Pankaj Ltd had issued 30,000, 15% Convertible Debentures of ₹100 each on 1st April 2011. The debentures are due for redemption on 1st March 2014. The terms of issue of Debentures provided that they were redeemable at a premium of 5% and also conferred option to the Debenture holders to convert 20% of their holding into Equity Shares(Nominal Value of ₹10) at a price of ₹15 per share. Debenture holders holding 2,500 Debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.

Answer:

Particulars	Nos.
Total Numbers of Debentures Less: Number of Debentures not opting for conversion	30,000 2,500
Balance Debentures opting for conversion	27,500
Convertible Portion Debentures=20% of 27,500 Redemption Value of 5,500 Debentures (5,500* ₹ 105)	5,500 ₹ 5,77,500
Number of Equity Shares to be allotted= 5,77,500 / 15 = 38,500 Shares of ₹ 10 each	

(vi) Explain the two methods which are used for reporting cash flows from Operating Activities.

Answer: An enterprise should report cash Flows from operating Activities using either -

1. **Direct Method:** Whereby major classes of gross cash receipts and payments are disclosed, or
2. **Indirect Method:** Whereby Net Profit or Loss is adjusted for the effects non-cash transactions, any receivables/ payables including changes in stock, and items of income or expense associated with investing or financing cash flows.

(vii) Distinguish between Audit and Investigation.

Answer:

Basis	Audit	Investigation
Objective	In audit, the accounts and records are verified as to authenticate their truthfulness and fairness.	Whereas, investigation is for special purpose.
Audit Procedure	Audit is conducted in accordance with the generally accepted auditing principles.	Investigations involve an extended auditing procedure.

(viii) State the usefulness of cost data to the Company.

Answer: The cost data is useful to company in –

- Price fixation of final product,
- Controlling wasteful expenditure,
- Reduction of waste and scrap,

- Optimum utillisation of labour, material and machinery,
- Taking make or buy decision.

(ix) State the powers of Audit Committee.

Answer: The Audit committee shall have powers, which shall include the following:
- To investigate any activity within its terms of reference,
- To seek information from any employee,
- To obtain outside legal or others professional advice,
- To secure attendance of outsiders with relevant expertise, if it considers necessary.

(x) Discuss — the term "Independent Financial Audit".

Answer:

An "Independent Financial Audit" may be conducted by a qualified auditor at the request of a client, which may be a sole proprietorship, partnership, nonprofit organisation or any other entity. Its objective is to comment on the truthfulness and fairness of the financial statements, and it may be compulsory under some Acts which govern the entity.

2. (Answer any 2 questions)

2. (a) Margabandhu Ltd acquired a machine on 2nd April 2011 costing USD 2,00,000. The Suppliers agreed to the following terms of payment: On 2nd April 2011 - 50% down payment, on 3rd April 2012 - 25% and on 2nd April 2013 - 25%.

The Company depreciates Machinery at 10% on SLM Basis. Assume Exchange Rates on various dates of payment as -

2nd April 2011 – ₹48.80,	**31st March 2012 – ₹47.50**
3rd April 2012 – ₹47.41	**31st March 2013 – ₹51.16**
2nd April 2013 – ₹51.77	**31st March 2014 – ₹54.39**

Show the extracts of relevant entries in the P&L A/c for the year ending 31st March 2012, 2013 and 2014 and the Balance Sheet on that date, showing necessary workings. 8

Answer:

1. **Machinery Account:** Gross Block and Depreciation be shown under Fixed Assets in the Balance Sheet.

Financial year ending	31st March 2012	31st March 2013	31st March 2014
Gross Block at WDV	2,00,000 × 48.80 = 97,60,000	87,84,000	78,08,000
Less: Depreciation at 10%	9,76,000	9,76,000	9,76,000
Net Block at WDV	87,84,000	78,08,000	68,32,000

Note: No adjustments will be made in the carrying amount of Fixed Assets / Depreciation due to exchange differences, since the Fixed Asset constitutes a Non-Monetary Item

2. **Foreign Currency Loan Account:** To be shown in the Liability side of the Balance Sheet.

Financial year ending 31st march 2012

Particulars	₹	Particulars	₹
To Bank - Down pymt - USD 1,00,000 × 48.80 To P&L A/c - Exchange Diff. on Closing Balance (48.80 - 47.50) × USD 1,00,000 To balance c/d - USD 1,00,000 × 47.50	48,80,000 1,30,000 47,50,000	By Assets A/c - Cost USD 2,00,000 × 48.80	97,60,000
Total	97,60,000	Total	97,60,000

Financial year ending 31st March 2013

Particulars	₹	Particulars	₹
To Bank - USD 50,000 × 47.41 To P&L A/c - Exchange Difference in Settlement (47.50 - 47.41) × USD 50,000 To balance c/d - USD 50,000 × 51.16	23,70,500 4,500 25,58,000	By balance b/d USD 1,00,000 × 47.50 By P&L A/c – Exch. Diff on closing balance. (51.16 - 47.50) × USD 50,000	47,50,000 1,83,000
Total	49,33,000	Total	49,33,000

Financial year ending 31st March 2014

Particulars	₹	Particulars	₹
To Bank - USD 50,000 × 51.77	25,88,500	By Balance b/d - USD 50,000 × 51.16 By P&L A/c – Exch. Diff in Settlement (51.77- 51.16) × USD 50,000	25,58,000 30,500
Total	25,88,500	Total	25,88,500

Note: The rate on 31st march 2014 is not relevant since the loan is fully cleared/settled by that date.

3. **P & L account:** The Exchange Differences noted in the Loan Liability A/c shall be debited / credited to the P&L A/c for each of the years. Depreciation will also be charged. The summary is as under:

Financial year ending	31st March 2012	31st March 2013	31st March 2014
Depreciation	Debit 9,76,000	Debit 9,76,000	Debit 9,76,000
Exchange Differences (Net)	Credit 1,30,000	Credit 1,78,500	Debit 30,500

2. **(b) (i)**
The fair value of plan assets at the beginning and end of the year were ₹3,000 and ₹3,286 respectively. The employer's contribution to the plan during the year as ₹310. Benefit payments to retirees were ₹360. Calculate the actual return on plan assets **2**

Answer:

The actual return is computed as follows:

Particulars	Amount ₹
Fair value of plan assets (beginning of year)	3,000
Plus: Employer Contribution	310
Plus: Actual Return	?
Less: Benefit Payments	(360)
Fair value of plan assets (ending of year)	3,286

The actual return equal to ₹336

Alternatively, the following formula may be used to derive the actual return:

Actual return = Fair value of asset (end of year) – fair value of assets (being of the year) – Employer contributions + Benefit payments

Actual return = ₹3,286 – ₹3,000 – ₹310 + ₹360 = ₹336

2. (b) (ii) A company follows a policy of refunding money to the dissatisfied customers if they claim within 15 days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.20% of the customers claim refunds. The company sold goods amounting to ₹25 lakhs during the last month of the financial year. Is there any contingency? 2

Answer:

There is a probable present obligation as a result of past obligating event. The obligating event is the sale of the product. Provision should be recognized as per AS-29. The best estimate for provision is ₹5,000 (₹25 lakhs × 0.2%).

2. (b) (iii) Pankaj Limited has taken machinery on lease from Bhagwan Ltd. The information is as under:

Lease Term	**4 years**
Fair Value at inception of lease	**₹20,00,000**
Lease Rent	**₹ 6,25,000 p.a. at the end of year**
Guaranteed Residual Value	**₹1,25,000**
Expected Residual Value	**₹3,75,000**
Implicit Interest Rate	**15%**

Discount Rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively. Calculate the Value of the Lease Liability as per AS – 19. 4

Answer:

1. Fair value at the inception of lease = ₹20,00,000
2. Present value of Minimum Lease Payments from Lessee's viewpoint –

Year (s)	Cash Flow Item	Amount	PV Factor	Present Value
1-4	Annual Lease Rental (ALR)	6,25,000	0.8696 + 0.7561 + 0.6575 + 0.5718 = 2.8550	17,84,375
4	Guaranteed Residual Value (GRV)	1,25,000	0.5718	71,475
	Total			18,55,850

3. Value of Liability = Fair Value of the Asset or Present value of Minimum Lease Payments, whichever is lower = ₹18,55,850.

   Note: The Expected Residual Value ₹ 3,75,000 given is not relevant in ascertaining the Liability of the Lessee.

2. (c) (i) Amit Ltd got a license to manufacture certain medicines for 10 years at a License Fee of ₹200 Lakhs. Given below is the pattern of expected production and expected Operating Cash Inflow:

Year	Production in Bottles (in Lakhs)	Net Operating Cash Flow (₹ in Lakhs)
1	**300**	**900**
2	**600**	**1,800**
3	**650**	**2,300**
4 to 10	**800 p.a.**	**3,200 p.a.**

Net Operating Cash Flow has increased for third year because of better inventory management and handling method. Suggest the amortization method. 5

Answer:

As per AS-26, Amortisation Method should be based on the expected pattern of consumption of economic benefits. Hence, the ratio of Net Operating Cash Flow can be used for amortization purposes.

Year	Net Operating Cash Flow	Amortisation Amt (₹ in Lakhs) (in above ratio)
1	900	6
2	1,800	12
3	2,300	16
4	3,200	24
5	3,200	24
6	3,200	24
7	3,200	24
8	3,200	24
9	3,200	24
10	3,200	22 (bal. fig)
Total	27,400	200

2. **(c) (ii) Kishor set up a new factory in the backward area and purchased Plant for ₹500 Lakhs for the purpose. Purchases were entitled for the CENVAT Credit of ₹10 Lakhs and also the Government agreed to extend 20% Subsidy for Backward Area Development. Determine the Depreciable Value of the Asset. 3**

Answer:

Particulars	₹ Lakhs
Cost of the Plant Less: CENVAT Credit available	500 (10)
Balance Less: Subsidy at 20% of ₹490 Lakhs	490 (98)
Depreciable Value of the Plant	392

Note: Asset cost Reduction Method has been adopted in the above case.

3. **(Answer any 2 questions)**

3.(a) The following are the Balance Sheets of Mahima Ltd and Nithya Ltd, as at 31st March -

(₹ in Lakhs)

Liabilities	Mahima	Nithya	Assets	Mahima	Nithya
Share Capital:			**Plant and Machinery**	**4,215**	**468**
Fully paid Equity Shares of ₹10 each	**3,600**	**900**	**Furniture and Fixtures**	**2,400**	**183**
10% Pref. Shares of ₹10 each, fully paid up	**1,200**	**Nil**	**Motor Vehicles**	**Nil**	**51**
Capital Reserve	**600**	**Nil**	**Stock**	**2,370**	**444**
General Reserve	**2,100**	**Nil**	**Sundry Debtors**	**1,044**	**237**
Profit and Loss Account	**780**	**Nil**	**Cash at Bank**	**1,542**	**240**
8% Redeemable Debentures of ₹1,000 each	**Nil**	**300**	**Preliminary Expenses**	**Nil**	**33**
Trade Creditors	**2,421**	**369**	**Discount on Issue of Debentures**	**Nil**	**6**
Provisions	**870**	**93**			
Total	**11,571**	**1,662**	**Total**	**11,571**	**1,662**

A new Company Sona Ltd was got incorporated with an Authorised Capital of ₹15,000 Lakhs divided into Shares of ₹10 each. In an amalgamation in the nature of Merger, Mahima Ltd & Nithya Ltd were merged into Sona Ltd on the following terms-

(a) Purchase Consideration for Mahima Ltd's business is to be discharged by issue of 120 Lakhs fully paid 11% Preference Shares and 720 Lakhs fully paid Equity Shares of Sona Ltd to the Preference and Equity Shareholders of Mahima Ltd in full satisfaction of their claims.

(b) To discharge Purchase Consideration for Nithya Ltd's business, Sona Ltd to allot 90 Lakhs fully paid up Equity Shares to Shareholders of Nithya Ltd in full satisfaction of their claims.

(c) Expenses on the liquidation of Mahima Ltd and Nithya Ltd amounting to ₹6 Lakhs are to be borne by Sona Ltd.

(d) 8% Redeemable Debentures of Nithya Ltd to be converted into 8.5% Redeemable Debentures of Sona Ltd.

(e) Expenses on Incorporation of Sona Ltd were ₹15 Lakhs.

You are required to -

(a) Pass necessary Journal Entries in the books of Sona Ltd to record above transactions, and

(b) Prepare Balance Sheet of Sona Ltd after Merger. 16

Answer:

1. Computation of Purchase consideration (₹ in lakhs)

Particulars	Mahima	Nithya	Total
Preference share Holders	120 Lakhs shares × ₹10 = 1,200	-	1,200
Equity Share Holders	720 lakhs × ₹10 = 7,200	90 Lakhs × ₹10 = 900	8,100
Total	8,400	900	9,300

2. Analysis of Reserves to be incorporated in the books of Sona Ltd (₹ in Lakhs)

Particulars	Mahima	Nithya
(a) Purchase Consideration	8,400	900
(b) Paid Up Capital (Equity + Preference)	4,800	900
(c) Difference	3,600	-
(d) Difference adjusted against the Reserves		
- General Reserve of Mahima Ltd	2,100	-
- Profit & Loss A/c of Mahima Ltd	780	-
- Profit & Loss A/c of Sona Ltd (Balance)	720	-

3. Journal Entries in the Books of Sona Ltd. (₹ in Lakhs)

Nature of Amalgamation: Merger **Method of Accounting: Pooling of Interest**

S. No.	Particulars	Dr.	Cr.
1.	Business Purchase A/c Dr. To Liquidator of Mahima Ltd. A/c To Liquidator of Nithya Ltd. A/c (Being purchase of business of Mahima Ltd. & Nithya Ltd, and consideration due thereon)	9,300	 8,400 900

2.	Plant and Machinery A/c Dr. Furniture and Fixtures A/c Dr. Stock A/c Dr. Sundry Debtors A/c Dr. Cash at Bank A/c Dr. Profit & Loss A/c **(WN 2)** Dr. To Business Purchase A/c To Capital Reserve A/c To Trade Creditors A/c To Provisions A/c (Being recording of Assets and Liabilities taken over from of Mahima Ltd)	4,215 2,400 2,370 1,044 1,542 720	 8,400 600 2,421 870
3.	Plant and Machinery A/c Dr. Furniture and Fixtures A/c Dr. Motor Vehicles A/c Dr. Stock A/c Dr. Sundry Debtors A/c Dr. Cash at Bank A/c Dr. Preliminary Expenses A/c Dr. Debentures Discount A/c Dr. To Business Purchase A/c To Debenture Holders A/c To Trade Creditors A/c To Provisions A/c (Being recording of Assets and Liabilities taken over from Nithya Ltd)	468 183 51 444 237 240 33 6	 900 300 369 93
4.	Liquidator of Mahima Ltd A/c Dr. Liquidator of Nithya Ltd A/c Dr. To Equity Share Capital A/c To 11% Preference Share Capital A/c (Being discharge of Purchase Consideration by allotment of Equity & Preference Shares)	8,400 900	 8,100 1,200
5.	Profit & Loss A/c Dr. To Bank A/c (Being payment of Liquidation Expenses of Mahima and Nithya Ltd)	6	 6
6.	Debenture Holders A/c Dr. To 8.5% Redeemable Debentures A/c (Being Allotment of 8.5% Debentures of Sona Ltd. to Debenture Holders of Nithya Ltd)	300	 300
7.	Preliminary Expenses A/c Dr. To Bank A/c (Being expenses incurred for formation of New Company)	15	 15
8.	Profit & Loss A/c Dr. To Preliminary Expenses (33+15) To Debentures Discount (Being Preliminary Expenses and Debentures Discount written off)	54	 48 6

4. Balance Sheet of Sona Ltd. as on 31st march

(₹ in Lakhs)

	Particulars as at 31st March	Note	Current Year	Previous Year
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	9,300	
	(b) Reserves and Surplus	**2**	(180)	
(2)	**Non-Current Liabilities:**			
	Long Term Borrowings 8.5% Redeemable Debentures (Secured)		300	
(3)	**Current Liabilities:**			
	(a) Trade Payables Creditors (2,421 + 369)		2,790	
	(b) Short Term Provisions (870 + 93)		963	
	Total		13,173	
II	**ASSETS**			
(1)	**Non-Current Assets**			
	Fixed Assets: Tangible Assets	**3**	7,317	
(2)	**Current Assets:**			
	(a) Inventories Stock-in-Trade (2,370 + 444)		2,814	
	(b) Trade Receivables Debtors (1,044 + 237)		1,281	
	(c) Cash and Cash Equivalents Cash & Bank (1,542 + 240 -15-6)		1,761	
	Total		13,173	

Note 1: Share capital (₹ in Lakhs)

Particulars	Current Year	Previous Year
Authorised: ……..Equity Shares of ₹10 each &…….11% Preference Shares of ₹10 each	15,000	
Issued, Subscribed & Paid up:		
(a) 810 Lakh Equity Shares of ₹10 each (All the above Shares were issued for non-cash consideration)	8,100	
(b) 120 Lakh 11% Preference Shares of ₹10 each (All the above Shares were issued for non-cash consideration)	1,200	
Total	9,300	

Note 2: Reserves and Surplus (₹ in Lakhs)

Particulars	Current Year	Previous Year
(a) Capital Reserve	600	
(b) Surplus Profit and Loss A/c (54 + 6 + 720)	(780)	
Total	(180)	

Note 3: Tangible Fixed Assets (₹ in Lakhs)

Particulars	Current Year	Previous Year
(a) Plant & Machinery (4,215 + 468)	4,683	
(b) Furniture & Fittings (2,400 + 183)	2,583	
(c) Motor Vehicles	51	
Total	7,317	

3. (b) (i)

On 1st April 2014 H 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 readily 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 2018, the investments realised ₹3,40,000 and debentures were redeemed. The bank balance as on that date was ₹50,000.

Prepare Debenture Redemption Fund Investments Account for 4 years.

8

Answer:

Dr. Debentures Redemption Fund Investment (DRFI) Account Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.15	To Bank A/c	1,00,000	31.03.15	By Balance c/d	1,00,000
01.04.15	To Balance b/d	1,00,000	31.03.16	By Balance c/d	2,10,000
31.03.16	To Bank A/c	1,10,000			
		2,10,000			2,10,000
01.04.16	To Balance b/d	2,10,000	31.03.17	By Balance c/d	3,31,000
31.03.17	To Bank A/c	1,21,000			
01.04.17	To Balance b/d	3,31,000	31.03.18	By Bank A/c (Sales)	3,31,000
		3,31,000			3,50,000
31.03.18	To Debenture Redemption Fund A/c (Profit)	9,000			
		3,50,000			3,50,000

Working Note:

(i) **Calculation of the amount of profit set aside**

		₹
a.	Face Value of Debentures	4,42,000
b.	Premium Payable on Redemption	22,100
c.	Depreciable Cost (a + b)	4,64,100
d.	Value of annuity per ₹ 1	4,641
e.	Annual amount to be charged (c/d)	1,00,000

(ii) Calculation of the amount of investments and interest

Year a	Opening Balance b	Interest c = b × 10/100	Saving d	Investments e = c + d	Closing Balance f = b + e
2014 – 15	-	-	1,00,000	1,00,000	1,00,000
2015 – 16	1,00,000	10,000	1,00,000	1,10,000	2,10,000
2016 – 17	2,10,000	21,000	1,00,000	1,21,000	3,31,000
2017 - 18	3,31,000	33,100	1,00,000	-	-

3. (b) (ii)

Following details are given for Akash Ltd. for the year 31st March, 2015:

	(Amt. ₹ in lakhs)	
Sales:		

Food products Plastic and Packaging Health and Scientific other	5,650 625 345 162	 6,782
Expenses: Food products Plastic and Packaging Health and Scientific other	 3,335 425 222 200	 4,182
Other Items: General corporate Expenses Income from investments Interest expenses		 562 132 65
Identifiable assets: Food products Plastic and Packaging Health and Scientific other	 7,320 1,320 1,050 665	 10,355
General Corporate Assets		722

Other Information:

(a) Inter- segment sales are as below:	(Amt. ₹ in lakhs)
Food products	55
Plastic and Packaging	72
Health and Scientific	21
other	7

(b) Operating profit includes ₹ 33 lakhs on inter-segment sales.

(c) Information about inter-segment expenses are not available.

You are required to prepare a statement showing financial information about Akash Ltd.'s operations in different industry segments. 8

Answer: **₹ in lakhs**

	Food Products	Plastic & Packaging	Health & Scientific	Others	Inter-segment Elimination	Consolidated
External Sales	5595	553	324	155	-	6627
Inter-segment	55	72	21	7	155	—
Total	5650	625	345	162	155	6627
Segment Expenses	3335	425	222	200	122	4060
Operating Profit	2315	200	123	(38)	33	2567
General Corporate Expenses						(562)
Income from Investment						132
Interest						(65)
Income from continuing operations						2072
Identifiable assets	7320	1320	1050	665		10355
Corporate assets	—	—	—	—	-	722
Total assets						11077

3. (c) The summarized balance Sheets of Jyoti Ltd. are as follows: (₹ 000's)

Liabilities	31.3.2015	31.3.2014	Assets	31.3.2015	31.3.2014
Share Capital	1,000	800	Buildings	1,096	1,100

Securities Premium Account	400	300	Plant and Machinery (Cost Less		
Revenue Reserves	929	619	Accumulated Depreciation)	726	732
Bank Loan	-	250	Stock	537	365
Trade Creditors	184	158	Trade Debtors	413	236
Other Creditors (Fixed Assets)	-	50	Prepayments (Expenses)	19	22
Accrued Expenses	35	25	Cash at Bank	212	35
Taxation	395	243			
Proposed Dividend	60	45			
Total	3,003	2,490	Total	3,003	2,490

Profit & Loss Account for the year ended 31st March 2015 **(₹ in 000's)**

	Particulars	₹	₹
	Turnover		2,960
	Opening Stock	365	
Add:	Purchases	2,073	
		2,438	
Less:	Closing Stock	(537)	
	Cost of Sales		1,901
	GROSS PROFIT		1,059
Less:	Distribution costs and Administrative Expenses		(197)
	Depreciation – Buildings	4	
	- Plant and Machinery	65	(69)
			793
Add:	Profit on Sale of Plant (Proceeds 128 less Net Book Value of Plant sold 121)		7
	Profit Before tax		800
Less:	Tax Expense		(395)
	Profit after tax		405
Less:	Dividends - Paid	35	
	- Proposed	60	(95)
	RETAINED PROFIT ADDED TO RESERVES		310

The following information is also available: **(₹ in 000's)**

Cash Account

Particulars	₹	Particles	₹
Balance as on 01.04.2014	35	Payments to Suppliers	2,047
Collection from Debtors	2,783	Payments for Fixed Assets	230
Issue of shares	300	Payments for Overheads	115
Sale of Fixed Assets	128	Wages and Salaries	69
		Taxation	243
		Dividends	80
		Repayments of Bank Loan	250
		Balance as at 31.03.2015	212
Total	3,246	Total	3,246

Debtors Control Account

Particulars	₹	Particles	₹
Balance as on 01.04.2014 Sale / Turnover	236 2,960	Cash received from Debtors Balance as on 31.03.2015	2,783 413
Total	3,196	Total	3,196

Creditors Control Account

Particulars	₹	Particles	₹
Cash paid to Creditors Balance as on 31.03. 2015	2,047 184	Balance as on 31.04.2014 purchase	158 2,073
Total	2,231	Total	2,231

Other Creditors (Fixed Assets) Account

Particulars	₹	Particles	₹
Cash paid	230	Balance as on 31.04.2014 Additions to Fixed Assets	50 180
Total	230	Total	230

Taxation Account

Particulars	₹	Particles	₹
Tax paid during the year Balance as on 31.03.2015	243 395	Balance as on 01.04.2014 Tax Expense during the year	243 395
Total	638	Total	638

Distribution Cost & Admin. Expenses Control	₹	Plant and Machinery	₹
Expenses charged to Profit and Loss A/c Add: Accrued Expenses at the beginning of the year	197 25	Net Book Value as at 1.04.2014 Add: Additions during the year Less: Depreciation charge for the year	732 180 (65)
Add: Pre-Payments at the end of the year Less: Accrued Expenses at the end of the year Less: Pre-Payments at the beginning of the year	19 (35) (22)	Net Book Value as at 31.3.2015	726
Cash Paid for Overheads and to Employees	184		

From the above information, prepare cash Flow Statement using both Direct and Indirect Method. 16

Answer:

Cash Flow Statement of Jyoti Ltd. for the year ending 31.03.2015 (in ₹000's)

A. DIRECT METHOD

Particulars	₹	₹
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash Collected from Customers	2,783	
Cash Payments to Suppliers	(2,047)	
Cash paid to Employees	(69)	
Other Cash Payments (for Overheads)	(115)	
Cash Generated from operations before Income Tax	552	
Less: Income Taxes paid	(243)	
Net Cash Flow from / (used in) Operating Activities (A)		309
B. CASH FLOW FROM INVESTING ACTIVITIES		

Payments for Purchase of Fixed Assets Proceeds from sale of Fixed Assets	(230) 128	
Net Cash Flow from / (used in) Investing Activities (B)		(102)
C. CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from issuance of share Capital	 300	
Bank Loan Repaid (assumed paid at year beginning, hence no Interest Expense) Dividends Paid	(250) (80)	
Net Cash Flow from / (used in) Financing Activities (C)		(30)
D. Net Increase in Cash & Cash Equivalents (A) + (B) + (C) **E.** Cash & Cash Equivalents at the beginning of the period		177 35
F. Cash & Cash Equivalents at the end of the period (D + E)		**212**

B. INDIRECT METHOD

Particulars	**₹**	**₹**
A. CASH FLOW FROM OPERATING ACTIVITIES Net Profit before Taxation **Adjustments for:** Depreciation Profit on Sale of Plant	 800 69 (7)	
Operating Profit Before Working Capital Changes **Adjustments for working capital Changes –** Increase in Stocks [537 – 365] Increase in Debtors [413 – 286] Decrease in Pre- Payments [22 – 19] Increase in Trade Creditors [184 – 158] Increase in accrued Expenses [35 – 25]	862 (172) (177) 3 26 10	
Cash Generated from Operations Before Income Tax **Less:** Income Taxes Paid	552 (243)	
Net Cash Flow from / (used in) Operating Activities (A)		309
B. CASH FLOWS FROM INVESTING ACTIVITIES Payments for Purchase of fixed Assets Proceeds from sale of fixed assets	 (230) 128	
Net Cash Flow from / (used in) Investing Activities (B)		(102)
C. CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from issuance of share capital Bank Loan repaid (assumed paid at year beginning, hence no Interest Expense) Dividends paid	 300 (250) (80)	
Net Cash Flow from / (used in) Financing Activities (c)		(30)
D. Net Increase / (Decrease) in Cash & Cash Equivalents (A) + (B) + (C) **E.** Cash & Cash Equivalents at the beginning of the period		177 35
F. Cash & Cash Equivalents at the end of the period (D + E)		**212**

4. (Answer any 2 questions)

(a) (i) What are the basic Principles governing an Audit. 8

Answer:

SA 200 issued by The Institute of Chartered Accountants of India (ICAI) gives the following basic principles that govern the auditor's responsibilities whenever an audit is carried out:

(i) **Integrity, objectivity and independence:-** The auditor should be straight-forward, honest, sincere and free form any influence on his audit work.

(ii) **Confidentiality:-** He should not disclose the client's information to anybody without the client's permission or under any regulatory requirement.

(iii) **Skills and competence:-** The audit should be performed and audit report be prepared by adequately trained, experienced and competent person.

(iv) **Work performed by others:-** The auditor should carefully supervise the work performed by others (such as his subordinates, other auditors, experts etc.) as remains responsible for the work delegated by him to his assistants, other auditors or experts.

(v) **Documentation:-** Proper working papers should be maintained by the auditor to evidence the audit work.

(vi) **Planning:-** The auditor should obtain the knowledge about client's business to determine the nature, timing and the extent of the audit procedures.

(vii) **Audit evidence:-** The auditor should obtain sufficient appropriate audit evidence through performing the compliance and substantive procedures.

(viii) **Accounting system and internal controls:-** An understanding of the accounting system and the related internal controls help in determining the nature, timing and extent of other audit procedures.

(ix) **Audit conclusions and reporting:-** On the basis of conclusions drawn from the audit evidence obtained the auditor should give unqualified report or qualified report or adverse report or the disclaimer report.

(a) (ii) List down the steps required for an Audit of Hospital. **8**

Answer:

The following points are to be considered necessary for conducting an audit of Hospital:

(i) Check the letter of appointment to ascertain the scope of responsibilities.

(ii) Study the Charter or Trust Deed under which the hospital has been set up and take a special note of the provisions affecting the accounts.

(iii) Examine, evaluate and verify the system of internal check, internal control and determine the nature, timing and the extent of the audit procedures.

(iv) Vouch the entries in the Patient's Bill Register with a copies of bill issued. Test check the selected bills to see that these have been correctly prepared taking into consideration the period of stay of each patient as recorded in the Attendance Schedule.

(v) Vouch the collection from patients with copies of bills and entries in Bills Register. Arrears of dues should be properly carried forward and where these are deemed to be irrecoverable, they should be written off under due authorizations.

(vi) Interest and/ or dividend income should be vouched with reference to the Investment Register and Interest and Dividend warrants.

(vii) In case of legacies and donations which are received for specific purposes, it should be ensured that any income there from is not utilized for any other purposes.

(viii) Where receipts of subscription show a significant deviations from budgeted figures, it should be thoroughly inquired into and the matter be brought to the notice of the trustees or the Managing Committee.

(ix) Government grants or grants from local bodies should be verifies with the reference to the correspondence with the concerned authorities.

(x) Clear distinction should be made between the items of capital and revenue nature.

(xi) The capital expenditure should be incurred under proper authorization by a valid resolution of the trustees or the Managing Committee.

(xii) Verify the system of internal check as regards purchases and issue of stores, medicines etc.

(xiii) Examine that the appointment of the staff, payment of salaries etc. are duly authorized.

(xiv) Physically verify the investments, fixed assets and inventories.

(xv) Check that adequate depreciation has been provided on all the depreciable assets.

4. (b) (i) Write a Short Note on Cut off Procedures. **4**

Answer:

i) Definition: Periods usually coincide with calendar months, which lead to the need for specific demarcation between transactions forming the part of one period from those included in the following period. Thus, cut-off procedures are adopted to allocate revenues and costs to the proper accounting period.

ii) Areas of concern: Close attention should be paid to the accounts payable and accounts receivable functions. These two functions are the most susceptible to recording of transactions in the wrong accounting period.

iii) Cut-of points: Serially numbered documents like invoice for sales or purchase bills are allocated to the respective accounting periods by establishing cut-off points based on the serial numbers.

iv) Importance: Cut-off procedures require detailed testing by the auditor so as to ensure proper accounting of assets and liabilities, which may arise without the corresponding physical delivery of goods taking place.

4. (b) (ii) Verify the procedure of allowing Retirement Gratuity to Employees. **4**

Answer:

i. Check the basis on which the gratuity payable to employees is worked out. The liability for gratuity may either be worked out on actuarial rules or agreement or on the presumption that all employees retire on the balance sheet date.

ii. Ensure that the basis of computing gratuity is valid.

iii. Verify computation of liability of gratuity on the aggregate basis.

iv. Check the amount of gratuity paid to employees who retired during the year with reference to number of years of service rendered by them.

v. See that the annual premium has been charged to Profit and Loss Account in case the concern has taken a policy from Life Insurance Corporation (LIC).

vi. Ensure that the accounting treatment is in accordance with AS-15 on "Employee Benefits".

4. (b) (iii) "Auditor not to render certain services" – Mention any four such kind of services. 4

Answer:

An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case maybe, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company, namely:—

(a) accounting and book keeping services;
(b) internal audit;
(c) design and implementation of any financial information system;
(d) actuarial services;
(e) investment advisory services;
(f) investment banking services;
(g) rendering of outsourced financial services;
(h) management services; and

4. (b) (iv) Write a note on social Audit. 4

Answer:

Organizations, these days, focus on attaining economic growth through performing processes that ensure social and environmental development simultaneously. A social audit is a way of measuring, understanding, reporting and improving an organization's performance towards meeting its social and ethical objectives.

Objectives of Social Audit

(a) Assessing the needs of the society and resources available for fulfilling them.
(b) Spreading awareness among beneficiaries about the business' efforts towards attaining social objectives.
(c) Increasing efficacy and effectiveness of the organization's Corporate Social Responsibility (CSR) programmes.
(d) Scrutiny of policy decisions, keeping in view the interests of stakeholders.

4. (c) (i) Distinguish between Clean report and Qualified report. 6

Answer:

Clean Report	Qualified Report
The Auditor issues a Clean Report (also called as unconditional opinion) when he does not have any reservation with regard to the matters contained in the Financial Statements.	A Qualified Audit Report is one where an Auditor gives an opinion subject to certain reservations.
In a Clean Report, the Auditor states that the Financial Statements give a true and fair view of the state of affairs and results for the period.	The Auditor's reservation is generally stated as - "Subject to the above, we report that the Balance Sheet shows a true and fair view."

The Auditor is justified in issuing a clean report if - i. The accounts are prepared using generally accepted accounting principles. ii. The Auditor has examined sufficient reliable evidence in respect of transactions recorded in the books. iii. The transactions recorded represent a true recording of the events. iv. The transactions are within the legal competence of the entity. v. There are no material misstatements in the Financial Statements. vi. The Financial Statements comply with the format and disclosure requirements as per the Statute.	A Qualified Opinion should be expressed when the Auditor concludes that - i. An Unqualified Opinion cannot be expressed, ii. The effect of any disagreement with Management is not so material and pervasive as to require an Adverse Opinion, or iii. The Limitation on scope is not so material and pervasive as to require a Disclaimer of Opinion.
There is no specific duty of Management for Clean Reports.	Management is bound to give explanation & full details in respect of each qualification in the Auditors Report.

4. (c) (ii) Write a note on – Audit Certificate. **4**

Answer:

Sometimes apart from an audit report for general use, an auditor is often called upon to give a certificate for special purpose. The certificate should include the following: —

i. Auditor should see that there is a suitable declaration by the management about the subject matter.

ii. Auditor should give the certificate on his letter head or on stationary carrying his name and address to avoid misunderstanding.

iii. Auditor should clearly state his limitations and indicate the extent to which he has relied upon a technical expert if any.

iv. Auditor should indicate the specific record covered by the certificate.

v. Auditor should mention the manner in which the audit was conducted.

vi. Auditor should indicate in the certificate if he has made certain fundamental assumptions. Auditor should make a reference to the information and explanations obtained. Auditor should give clear title to it, indicating whether it is a report or a certificate.

4. (c) (iii) Discuss different types of Risk (i) Inherent Risk (ii) Control Risk (iii) Detection Risk.

Answer: **6**

(i) Inherent Risk: The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(ii) Control Risk: The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

(iii) Detection Risk: The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.