

Paper 12- Company Accounts & Audit

MTP_ Intermediate_Syllabus 2012_Jun2017_Set 1

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Full Marks: 100

Time allowed: 3 hours

Section – A

I. Answer all the following questions:

1. Answer the following questions:

[5x2=10]

- (a) Net profit for the year 2015-16 ₹ 50,00,000 and 2016-17 ₹1,50,00,000. No. of equity shares outstanding until 31st Dec, 2016: 20,00,000. Bonus issue on 1st January, 2017 was one equity share for each equity share outstanding on 31st Dec, 2016. Calculate Basic Earnings per Share.
- (b) Mitra Limited took over assets of ₹70,92,000 and liabilities of ₹9,70,000 of Friends Enterprises at an agreed value of ₹67,30,000. Give the necessary journal entry to record the purchase of business in the books of Mitra Limited.
- (c) Define Integral Foreign Operation.
- (d) A company issued 20,000 15% debentures of ₹ 100 each at par redeemable at a premium of 15%. After 8 years the company served notice of redemption and redeemed all debentures as per the terms of issue. You are required to make entry for the time of issue of debentures only.
- (e) During the year 2013-14, Purvi Limited received a grant from the Government of India amounting to ₹35 lakh towards purchase of a piece of land for ₹140 lakh. You are required to show the accounting treatment of the above transaction in the books of Purvi Limited, as per AS-12.

2. Matching the following:

[5x1=5]

Column 'A'		Column 'B'	
1.	Treatment of Voluntary Retirement Scheme Payments	A.	Capital Reserve
2.	Balance of Forfeited Shares A/c	B.	Amalgamation
3.	Interest and Dividend Received	C.	AS-26
4.	Pooling of Interest Method	D.	AS-15
5.	Recognition of an Intangible Asset	E.	Investing Activities of Cash Flow

3. Answer the following question:

5 x 2 = 10

- (a) Checks while auditing splitting of shares
(b) Distinction between Financial Audit and Cost Audit
(c) Comment on Submission of Cost Audit Report
(d) Re-appointment of an auditor
(e) Advantages of Balance Sheet Audit

MTP_ Intermediate_ Syllabus 2012_ Jun2017_ Set 1

Section – B

II. Answer any three of the following:

[3 × 15 = 45]

4. (a) The following balances were shown in the Balance Sheet of A Limited as at 31st March, 2016:

	₹
8,00,000 Equity Shares of ₹10 each fully paid up	80,00,000
50,000, 8% Preference Shares of ₹100 each ₹80 paid up	40,00,000
Capital Reserve	35,00,000
General Reserve	80,00,000
Securities Premium	70,00,000
Profit & Loss Account	52,00,000
12% Debentures	10,00,000
Non-Current Investment at cost	65,00,000
Cash and Bank	92,00,000

Additional Information:

- The company passed a resolution to buy-back 20% of its equity capital @ ₹35 per share. For this purpose, it sold its investments of ₹30 lakhs for ₹28 lakhs.
- The company redeemed the preference shares at a premium of 25%.
- Included in its investments were 'Investments in own debentures' costing ₹10 lakhs (face value ₹11.50 lakhs). These debentures were cancelled.

You are required to pass necessary journal entries in the books of the company for above. **[10]**

- (b) The following items appear in the Trial Balance of Nupur Ltd. as at 31st March, 2015:

Particulars	₹
1. Revenue from Operations	24,00,000
2. Other Income	1,00,000
3. Expenses other than Interest	3,80,000
4. General Reserve (as on 1st April, 2014)	1,30,000

- Profit and Loss Account (as on 1.4.2014) ₹3,28,000. The recommendation of the company's Board of Directors include equity dividend of 15% (Including Interim Dividend of ₹ 80,000). Transfer to Debenture Redemption Reserve @ 50% of Debentures and Transfer to General Reserve @ 5%. (Assume Corporate Tax 30% and Dividend Distribution Tax @ 20%).
- 12%, 10,000 Debentures of ₹ 100 each fully paid up.
- 14%, 5,000 Preference Shares of ₹ 100 each fully paid up.
- 6,000 Equity Shares of ₹ 100 each.
- 8,000 Equity Shares ₹ 100 each, ₹ 25 paid up.

Required: Show the Profit and Loss.

[5]

MTP_ Intermediate_Syllabus 2012_Jun2017_Set 1

5. (a) Following Balances are provided by the Mayank Ltd. for the year ended 31st March, 2015 and 2016:

Particulars	31.03.2015 ₹	31.03.2016 ₹
Equity Share Capital	120,00,000	140,00,000
General Reserve	74,00,000	89,00,000
Profit & Loss A/c	42,00,000	60,00,000
11% Debentures	100,00,000	60,00,000
Goodwill	20,00,000	16,00,000
Land & Building	140,00,000	130,00,000
Plant & Machinery	120,00,000	132,00,000
Investment (Non trading)	48,00,000	44,00,000
Creditors	37,00,000	43,00,000
Provision for tax	25,50,000	38,40,000
Proposed Dividend	18,00,000	25,20,000
Stock	80,00,000	77,00,000
Debtors	57,60,000	83,00,000
Cash at Bank	17,60,000	18,60,000
Prepaid Expenses	3,00,000	2,20,000

Additional Information:

- (i) Investment were sold during the year for ₹ 7,00,000.
- (ii) During the year an old machine costing ₹ 16,00,000 was sold for ₹7,20,000. Its written down value was ₹ 9,00,000.
- (iii) Depreciation charged on plant and machinery @20% on the opening balance.
- (iv) There was no purchase or sell of land and building during the year.
- (v) Provision for tax made during the year was ₹ 32,20,000.
- (vi) During the year premium on redemption of debentures ₹ 4,00,000 was written-off.

You are required to prepare a statement showing the net cash flow from the operating activities. **[10]**

(b) A Ltd. purchased fixed assets costing ₹ 7,500 lakhs on 1.1.15 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal installments. Exchange rates were 1 Dollar = ₹ 62.50 and ₹ 65.00 as on 1.1.15 and 31.12.15 respectively. First installment was paid on 31.12.15. The entire difference in foreign exchange has been capitalized.

You are required to state, how these transactions would be accounted for. **[5]**

6. (a) Prithvi Ltd. issued 40,000 Shares which are underwritten as follows:

- Mr. A — 24,000; Mr. B — 10,000 and Mr. C — 6,000 Shares.
- The Underwriters made applications for firm underwriting as under:
Mr. A — 3,200 Shares; Mr. B — 1,200 Shares; and Mr. C — 4,000 Shares.
- The total subscriptions excluding Firm Underwriting but including marked applications were for 20,000 Shares.
- The marked applications were: Mr. A — 4,000 Shares; Mr. B — 8,000 Shares and Mr. C — 2,000 Shares.
- Show the allocation of liability of the underwriters. **[8]**

(b) M Ltd. has the following business/geographical segments.

Examine which of these are reportable Segments under AS - 17.

(Information in ₹000's)

MTP_ Intermediate_Syllabus 2012_Jun2017_Set 1

Segments	Revenue	Profit/ (Loss)	Assets
A	19,200	3,500	8,200
B	600	360	900
C	200	140	900

[7]

7. (a) The following particulars relate to a Varahamihira Pipes Limited which has gone into voluntary liquidation on 31.3.2014.

Share Capital issued:

6,000 Preference share of ₹ 100 each fully paid up.

45,000 Equity Shares of ₹ 10 each fully paid up.

20,000 Equity Shares of ₹ 10 each, 7 paid up.

Assets realised ₹ 14,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

Particulars	Amount (₹)
Preferential Creditors	40,000
Unsecured Creditors	11,00,000
Partly Secured Creditors (Assets realized ₹ 2,20,000)	2,75,000
Debenture holders having floating charge on all	
Assets of the company	5,00,000
Expenses of Liquidation	22,000

A call of ₹ 3 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1000 shares.

You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 3% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

[9]

(b) Lessee Ltd., took a machine on lease form Lessor Ltd. The fair value being ₹ 7,00,000. The economic life of the machine as well as the lease time is 3 years. At the end of each year lessee Ltd., pays ₹ 3,00,000. The lessee has guaranteed a residual value of ₹ 22,000 on expiry of the lease to the lessor. However Lessor Ltd., estimate that the residual value of the machinery will be only 15000. The implicit rate of return is 15% p.a and the present value factor at 15% are 0.869, 0.756 and 0.657 at the end of 1st, 2nd and 3rd year respectively.

Calculate the value of machinery to be considered by lessee Ltd., and the finance charges in each year.

[6]

Section – C Answer any two Questions

8. (a) State the advantages of continuous audit
(b) How would you determine the materiality of an item, while conducting audit.

[7+8 = 15]

MTP_ Intermediate_Syllabus 2012_Jun2017_Set 1

9. (a) What is Secret Reserve? How it may be created? How it is verified by an auditor?
(b) What are the special considerations to be kept in the mind during vouching?

[8+7 = 15]

10. (a) Differentiate between Accounting and auditing.
(b) State the advantages of conducting Audit of Sole proprietors.

[10+5 = 15]