

Paper – 12: Company Accounts and Audit

PTP_Intermediate_Syllabus 2012_Dec2015_Set 2

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	List	Make a list of
	What you are expected to know	State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
		COMPREHENSION	Describe
	What you are expected to understand	Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
		APPLICATION	Apply
	How you are expected to apply your knowledge	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	Analyse	Examine in detail the structure of
	How you are expected to analyse the detail of what you have learned	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) An asset does not meet the requirements of environment laws which have been recently enacted. The asset has to be destroyed as per the law. The asset is carried in the Balance Sheet at the year end at ₹ 6,00,000. The estimated cost of destroying the asset is ₹ 60,000. How is the asset to be accounted for?
- (ii) XYZ Ltd. took over assets of ₹ 230 lakh and liabilities of ₹ 30 lakh of PQR Ltd. for the purchase consideration of ₹ 220 lakh. XYZ Ltd. paid the purchase consideration issuing equity shares of ₹ 100 each at 10% premium. Give journal entries in the books of the XYZ Ltd.
- (iii) Differentiate between Reporting Currency and Foreign Currency .
- (iv) List the matters to be disclosed when there is a change in classification as per AS – 11.
- (v) A Company has its Share Capital divided into Equity Shares of ₹10 each. On 01.10.2013, it granted 20,000 Employees' Stock Option at ₹ 50 per Share, when Market Price was ₹ 120 per share. The Options were to be exercised between 10.12.2013 and 31.03.2014. Employees exercised their options for ₹16,000 Shares only, and the remaining options lapsed. The Company closes its books on 31st March every year. Show Journal Entry (with narration) as would appear in the Company's books upto 31.03.2014.
- (vi) Treatment of Non-cash transactions as per AS – 3 — Discuss.
- (vii) States the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor.
- (viii) A Statutory auditor cannot be appointed as a Cost Auditor — Comment.
- (ix) List the Objectives of quality control procedures to be adopted by an audit firm.
- (x) Discuss — Cost Auditing Standards as per the Companies Act, 2013.

2. (Answer any 2 questions)

- (a) (i) Anand Ltd availed a lease from Sukh Ltd. The terms and conditions of the Lease are as under:
- Lease Period is 3 years, in the beginning of the year 2012, for equipment costing ₹ 10,00,000 and has an expected useful life of 5 years.
 - The Fair Market Value is also ₹ 10,00,000.
 - The property reverts back to the lessor on termination of the lease.

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- The Unguaranteed Residual Value is estimated at ₹ 1,00,000 at the end of the year 2014.
- 3 equal annual payments are made at the end of the each year.

Consider IRR = 10%. Present Value of ₹ 1 due at the end of 3rd year at 10% rate of interest is ₹ 0.7513. present Value of annuity of ₹ 1 due at the end of 3rd year at 10% IRR is ₹ 2.4868.

State whether the Lease constitutes Finance Lease, and also calculate Unearned Finance Income. **[6]**

- (ii)** A Ltd. has not included in the Balance Sheet as on 31.03.2014, a sum of ₹ 1.50 Crores being amount in the arrears of Salaries and Wages payable to the Staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30.04.2014. The Auditor wants to sign the said Balance Sheet and give the audit report on 31.05.2014. The Auditor came to know the result to the negotiations on 15.05.2014 — Comment. **[2]**

- (b)** A Steel Manufacturing Company has a turnover of ₹ 45 Crores and Net Pre-Tax Profit of ₹ 6 Crores. The Company's financial year ends on 31st March. The Company's policy is to treat Grants received in respect of Fixed Assets as Deferred Income and to deduct all Grants identified as relating to specific revenue expenditure against that expenditure.

All other Grants recognized are credited to P&L Account. Discuss the following situations –

- (i) During the year, the Company received a Grant from the Defence Department of Government of India for ₹ 3,00,000 towards the cost of new equipment. The equipment has an estimated useful economic life of 10 years and cost ₹ 7,00,000. The Company policy is to depreciate all depreciable Fixed Assets by the Straight Line Method.
- (ii) During the year, the Company spent ₹ 70,000 on training, in respect of which it is due to receive Government Grant of 50%. The grant formalities have been completed but payment is not expected until mid – June of the next year.
- (iii) In October, a Grant of ₹ 40,000 was receive from the Government in recognition of the high quality that the Company's production had maintained over the five years, which had ended on 31st March, the previous accounting year. **[8]**

- (c) (i)** Ranashankara Ltd acquired a know-how on 1st April 2000 for ₹ 72 Lakhs and amortises the same using Straight Line Method for 18 years. AS – 26 is applicable to the company from 1st April 2003. Give the accounting treatment for the above under AS – 26. **[5]**

- (ii)** As on 31.03.2014, the Equity share Capital of AB Ltd. is ₹10 Crores divided into Shares of ₹10 each. During the financial year 2014-2015, it has issued Bonus Shares in the ratio of 1:1. The Net Profit after Tax for the years 31.03.2014 and 31.03.2015 are ₹8.50 Crores and ₹11.50 Crores respectively. EPS disclosed in the accounts for two years in ₹8.50 and ₹5.75 respectively. Comment on the above. **[3]**

3. (Answer any 2 questions)

- (a) (i)** ABC Ltd. came out with an issue of 45,00,000 Equity Shares of ₹ 10 each at a Premium of ₹ 2 per Share. The Promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A. B and C.

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Each Underwriter took Firm Underwriting of 1,00,000 Shares each. Subscriptions for 31,00,000 Equity Shares were received with Marked Forms for the Underwriters as given below (i) A – 7,25,000, (ii) B – 8,40,000 (iii) C – 13,10,000, (iv) Total – 28,75,000.

The Underwriters are eligible for a commission of 5% on Face Value of Shares. The entire amount towards Shares subscription has to be paid along with application. You are required to:

- Compute the Underwriters' Liability (Number of Shares),
- Compute the amounts payable or due to Underwrites, and
- Pass necessary Journal Entries in the books of the Company relating to Underwriting. **[12]**

(ii) ABC Ltd. agreed to absorb Moon Limited on 31st March 2015 whose summarized Balance Sheet stood as follows:

Equity and Liabilities	₹	Assets	₹
Share capital 1,20,000 Shares of no each fully paid up	12,00,000	Fixed Assets Investments	10,50,000 -
Reserves & Surplus General reserve	1,50,000	Current Assets, Loans and Advances	
Secured Loan	-	- Stock in Trade	1,50,000
Unsecured Loan	-	- Sundry Debtors	3,00,000
Current Liabilities & Provisions Sundry Creditors	1,50,000		
	15,00,000		15,00,000

The consideration was agreed to be paid as follows:

- (a) A payment in cash of ₹5 per share in Moon Ltd. and
- (b) The issue of shares of ₹10 each in ABC Ltd. on the basis of two equity shares (valued at ₹15) and one 10% cumulative preference share (valued at ₹10) for every five shares held in Moon Ltd.

The whole of the share capital consists of shareholdings in exact multiple of five except the following holding:

P	174	
Q	114	
R	108	
S	42	
Other Individuals	12	(Twelve members holding one share each)

It was agreed that ABC Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Moon Ltd. i.e. ₹65 for five shares of ₹50 paid.

Compute the total number of Non-exchangeable shares. **[4]**

(b) Santanu Ltd. had decided to reconstruct the Balance Sheet since it had accumulated huge losses. The following is the Balance sheet of the Company on 31st March before reconstruction:

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(₹ in '000)

Liabilities	₹	Assets	₹
Shareholders' Funds:		Non-Current Assets:	
Share Capital		Tangible Assets	
50,000 Equity Shares of ₹50 each	2,500	Fixed Assets	1,000
1,00,000 Equity Shares of ₹50 each ₹40 paid up	4,000	Building	1,000
		Plant	2,500
		Computers	
Reserves and Surplus		Intangible Assets	
Profit & Loss Account	2,000	Goodwill	2,000
Non-Current Liabilities:			
12% First Debentures	5,00		
12% Second Debentures	1,000		
Current Liabilities:	500		
Total	8,500	Total	8,500

The following is the interest of 2 individuals, Mr. N and Mr. D in the Company –

Particulars	Mr. N	Mr. D
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Sundry Creditors	2,00,000	1,00,000
Total of above	12,00,000	6,00,000
Fully paid up ₹ 50 Shares	3,00,000	2,00,000
Partly paid up Shares (₹ 40 paid up)	5,00,000	5,00,000

The following scheme of Reconstruction is approved by all parties interested and also by the Court:

- i. Uncalled Capital is to be called up in full and such shares and the other fully paid up shares be converted into Equity Shares of ₹ 20 each.
 - ii. Mr. N is to cancel ₹ 7,00,000 of his total debt (other than Share Amount) and to pay ₹ 2 lakhs to the Company and to received new 14% First Debentures for the balance amount.
 - iii. Mr. D is to cancel ₹ 3,00,000 of his total debt (other than Equity Shares) and to accept new 14% First Debentures for the balance.
 - iv. The amount thus rendered available by the scheme shall be utilized in writing off of Goodwill, Profit and Loss A/c and the balance to write off the value of Computers.
- You are required to draw the Journal Entries to record the same and show the Balance Sheet of the reconstructed Company. **[16]**

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- (c)(i)** Mr. Sen of Moon Light Limited has collected the following information for the preparation of cash flow statement for the year ended 30.06.2014 :

	(₹ in lakhs)
Net Profit	90,000
Dividend (including dividend tax) paid	25,605
Provision for Income-tax	18,000
Income tax paid during the year	12,744
Loss on sale of assets (net)	120
Book value of the assets sold	555
Depreciation charged to Profit & Loss Account	60,000
Amortisation of Capital grant	30
Profit on sale of Investments	300
Carrying amount of Investment sold	83,295
Interest income on investments	7,530
Interest expenses	30,000
Interest paid during the year	31,560
Increase in Working Capital (excluding Cash & Bank balance)	1,68,225
Purchase of fixed assets	43,680
Investment in joint venture	11,550
Expenditure on construction work in progress	1,04,220
Proceeds from calls in arrear	6
Receipt of grant for capital projects	36
Proceeds from long-term borrowings	77,935
Proceeds from short-term borrowings	61,730
Opening cash and Bank balance	15,009
Closing cash and Bank balance	38,952

Required :

Prepare the Cash Flow statements for the year in accordance with AS-3 on Cash Flow statements issued by the Institute of Chartered Accountants of India (Make necessary assumptions). **[12]**

- (ii)** The Chief Accountant of BHD Ltd. gives the following data regarding its six segments:

Particulars	M	N	O	P	Q	R	Total
Segment Assets	50	25	10	5	5	5	100
Segment Results	-50	-140	80	10	-10	10	-100
Segment Revenue	200	320	200	90	90	100	1000

Determine the reportable segments as per AS – 17.

[4]

4. (Answer any 2 questions)

- (a)(i)** For issuing an unqualified audit report, the auditor has to satisfy himself about some matters — discuss. **[6]**
- (ii)** Write a note on — Audit Note Book. **[6]**
- (iii)** List the areas to be considered while conducting audit of issue of bonus shares. **[4]**
- (b) (i)** Describe propriety audit in the context of government audit. **[7]**
- (ii)** List any three areas to be checked in relation to retirement gratuity to employees while conducting audit. **[3]**
- (iii)** State the objectives and functions of the Auditing and Assurance Standard Board (AASB). **[6]**
- (c) (i)** List the steps involved in conducting the audit of an educational institution. **[12]**
- (ii)** Write a note on — Adverse or Negative Audit Report. **[4]**