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:

(i) Amrit Ltd. Granted 6,000 options on 1st May 2013 at ₹70 when the market price was ₹150. The vesting period is two years.
You are required to:
(a) Calculate the value of options
(b) Calculate the amount to be amortised every year.

(ii) Income from operating Activities is ₹90 lakhs;
Fixed Asset sold for ₹120 lakhs;
Machinery purchased for ₹150 lakhs;
Income from Financing Activities is ₹(20) lakhs, copute the net effect on cash Flow.

(iii) What we understand by the term " Obligation"?

(iv) A Company had ₹10,00,000 Authorised Capital on 31.3.2013 divided into shares of ₹100 each out of which 8,000 shares were issued and fully paid up. In September 2013 the Company decided to convert the issued Shares into Stock. Subsequently, in April 2014, the Company re-converted the stock into shares of ₹10 each fully paidup . Pass Journal Entries.

(v) State any four methods of redemption of debentures.

(vi) Prafullya Ltd. issued 80,000 shares. Issued is underwritten by P,Q, and R in the ration of 5:3:2 respectively. Unmarked applications totaled 4,000 whereas Marked Applications are : P – 32,000 shares, Q – 11,400 shares and R – 16,600 shares.

Calculate the Gross Liability of each of the Underwriters.

(vii) Discuss — Information Security Audit.

(viii) State what is Balance Sheet Audit.

(ix) Discuss — Test Control.

(x) List the uses of Interim Audit.

2. (Answer any 2 questions)

(a) (i) Define - Government, and Government Grants as per AS - 12. **[3]**

(ii) At the beginning of a financial year, a Company issued 1,20,000 Equity Shares of ₹100 each, ₹50 per Share was called up on that date which was paid by all Shareholders. The remaining ₹50 was called up on 1st September. All Shareholders paid the sum in September, except one Shareholder having 24,000 Shares. The Net Profit for the relevant financial year is ₹2,64,000 after dividend on Preference Shares and Dividend Distribution Tax of ₹64,000. Compute the Basic EPS for the year as per AS-20. **[5]**

(b) The following balances are provided in respect of the US Branch of Prithvi Ltd.

Debit Balances (in USD):

Expenditure excluding depreciation - 68,730,

Cash & Bank Balances - 1,450,

Debtors - 4,910,

Fixed Assets (10% Depreciation) - 22,800,

Inventory Stock A - 3,680,

Inventory Stock B - 690.

Credit Balances (in USD):
Income - 88,000,
Creditors -10,380,
HO Control A/c - 3,880

The following additional information is provided –

- The Average Rate during the above financial year was 1 USD = ₹45.00
- Fixed Assets were purchased when the exchange rate was 1 USD = ₹44.00
- Exchange Rate at the end of the financial year i.e. Closing Rate was 1 USD = ₹ 46.50.
- Stock Item A is valued at cost of USD 3,680, purchased when the exchange rate was ₹ 45.50. The present NRV of this item is ₹1,60,000.
- Stock Item B is carried at NRV of USD 690, but its cost is USD 710 (purchased when Exchange Rate was 1 USD = ₹43.20)
- Branch Control Account as per HO Books was ₹ 1,77,510.

  If the Branch is classified as an Integral Foreign Operation, show how it will be reflected in the Head Office Accounts **[8]**

(c) (i) Define -
Gross Investment,
Net investment, and
Unearned Finance Income as per AS – 19 for the lessor. **[6]**

(ii) Calculate from the following information- Theoretical ex-right fair value

- Number of equity shares outstanding 4 lakhs
- Right issue 2 shares for each 5 shares
- Fair value per share before right ₹ 34.00
- Right issue price ₹ 20.00. **[2]**

3. (Answer any 2 questions)

(a) (i) Asmaan Ltd. absorbs Vimaan Ltd. and the liquidation expense is ₹50,000.
Give the journal entries in the books of if Transferor Company —

Case I: The expense is incurred by Transferor Company;
Case II: The expense is Incurred by Transferee Company;

Case III: The expense is Incurred by Transferor Company reimbursed by Transferee Company. **[4]**

(ii) From the following particulars of Pintop Ltd. you are required to calculate the Managerial Remuneration in the following situations:

- There is only one Whole Time Director.
- There are two Whole Time Directors.
- There are two Whole Time Directors, a part time Director and a Manager.
-

Particulars	₹
Net Profit before Income Tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	8,70,410
Depreciation provided in the Books	3,10,000
Provision for Repairs for Machinery during the year	25,000
Depreciation Allowable under Schedule II	2,60,000
Actual Expenditure incurred on Repairs during the year	15,000

[6]

(iii) Vima Ltd. has the following business / geographical segments. Examine which of these are Reportable Segments under AS – 17. (₹'000)

Segments	Revenue	Profit/(Loss)	Assets
A	9,600	1,750	4,100
B	300	180	450
C	100	70	450

[6]

(b) (i) Following is the summarized Balance Sheet of A Ltd. as at 31st March:

Equity and Liabilities	₹'000	Assets	₹'000
Shareholders' Funds:		Non-Current Assets:	
Share Capital		Fixed Assets – Tangible	
Equity Shares of (₹ 100)	1,500	- Land & Buildings	1,000
11% Pref. Shares of	500	- Plant & Machinery	700
Reserves & Surplus		- Furniture & Fittings	200
General Reserve	300		
Current Liabilities:		Current Assets:	
Trade Payables — Sundry Creditors	200	Inventories	300
		Trade Receivables	
		Debtors	200
		Cash & Cash Equivalents	100
Total	2,500	Total	2,500

M Ltd agreed to take over A Ltd on the following terms:

- Each Equity Share in A Ltd for the purpose of absorption is to be valued at ₹80.
- Equity Shares will be issued by M Ltd by valuing its each Equity Share of ₹100 each at

₹ 120 per share.

- 11% Preference Shareholders of A Ltd will give 11% Redeemable Debentures of M Ltd at equivalent value.
- All the Assets and Liabilities of A Ltd will be recorded at the same value in the books of M Ltd.

Required:

- ✓ Calculate the purchase Consideration.
- ✓ Pass Journal Entries in the books of M Ltd. for absorbing A Ltd. **[7]**

(ii) Prepare Cash Flow Statement of K Ltd for the year as per AS-3, from the following data.

Particulars	(₹ in lakhs)
Net Profit	25,000
Dividend (including Dividend Tax) paid	8,535
Provision for Income Tax	5,000
Income Tax paid during the year	4,248
Loss on Sale of Assets (Net)	40
Book Value of Assets sold	185
Depreciation charged to Profit & Loss Account	20,000
Amortisation of Capital Grant	6
Profit on Sale of Investments	100
Carrying Amount of Investments sold	27,765
Interest Income on Investments	2,506
Interest Expense	10,000
Interest paid during the year	10,520
Increase in Working Capital (excluding Cash & Bank Balance)	56,075
Purchase of Fixed Assets	14,560
Investments in Joint Venture	3,850
Expenditure on Construction Work-in-Progress	34,740
Proceeds from Calls-in-Arrears	2
Receipt of Grant for Capital Projects	12
Proceeds from Long-Term Borrowings	25,980
Proceeds from Short-Term Borrowings (assume as Financing Activities)	20,575
Opening Cash & Bank Balance	5,003
Closing Cash & Bank Balance	6,988

[9]

(c)(i) On 1st January 2010, Q Ltd. issued 10,000, 15 year Debentures of ₹ 100 each bearing interest at 12% per annum. One of the conditions of issue was that the debentures could be redeemed by giving six months notice at any time after 5 years, at a premium of 10% either by payment in cash or by allotment of preference shares and / or other debentures according to the option of debenture holders on 1st April, 2015 either by payment in cash or by allotment of 8% Preference Shares of ₹ 100 each at ₹ 125 per share or by allotment of 13% Second Debentures of ₹ 100 each at ₹ 96 per debenture. Holders of 4,000 debentures accepted the offer of the Preference Share and Holders of 4,800 debentures accepted the offer of the 13% Second Debentures and the rest demanded cash. Redemption of debentures was completed on 1st October, 2015. Give Journal entries to record the transactions, relating to redemption. **[10]**

(ii) State the disclosure requirement under schedule III of the following items:

- Debit balance of Profit & Loss account
- Unsecured Bank loan. **[2]**

(iii) Following is the Balance Sheet of Urmila Ltd. for the year ended 31st March,2014 —

Liabilities	Amount	Assets	Amount
Equity Shares of ₹100 each fully paid up	20,00,000	Fixed Assets	19,00,000
Reserves and Surplus	4,00,000	Current Assets	11,00,000
Current Liabilities	6,00,000		
	30,00,000		30,00,000

Kapila Ltd. takes over all the assets and liabilities of Urmila Ltd. at their books value except a machinery of ₹8 lakhs taken over at ₹6 lakhs.

Kapila Ltd. issued requisite number of equity shares at par for the assets and liabilities taken over.
Compute the purchase consideration and determine whether the above should be treated as an amalgamation in the nature of Merger or in the nature of Purchase. **[4]**

4. (Answer any 2 questions)

(a) (i) Discuss Government Expenditure Audit . **[5]**

(ii) Discuss Surprise Check in the context of audit. **[6]**

(iii) State the procedure for removal of statutory auditor before the expiry of his term as per Companies Act, 2013. **[5]**

(b)(i) Distinguish Between Internal Audit And External Audit. **[10]**

(ii) X Ltd. is going for liquidation it has liabilities of ₹120 consisting of secured creditors of ₹30, Creditors of ₹20 and Unsecured Creditors of ₹70. Net Assets after payment of both secured and Preferential Creditors is ₹30.
Liquidator is entitled to a remuneration of 2% on the on the payment made to unsecured creditors.
Guide the Accountant on the procedure to estimate the remuneration of the liquidator. **[6]**

(c) (i) Discuss the procedure of auditing Patents. **[6]**

(ii) Discuss the way of verification work conducted in case of revalued fixed assets. **[5]**

(iii) "Cost data are very much useful to a company" — discuss. **[5]**