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]**

(a) Purva Ltd. presented the following particulars. How will you deal with the following? Purva Ltd. applied for a Govt. grant to set up a new factory premises amounting to ₹ 50,00,000 which has been sanctioned/approved. The amount had not been received by Purva Ltd. But the factory premise was completed within the year.

(b) Tulip Engineering Ltd. Granted 4,000 options on 1st May 2013 at ₹ 60 when the market price was ₹ 150. The vesting period is two years.

You are required to:
(i) Calculate the value of options
(ii) Calculate the amount to be amortised every year.

(c) Discuss the term " Obligation".

(d) Vikas Ltd. took over assets of ₹ 460 Lakh and liabilities of ₹ 60 Lakh of Prakash Ltd. for the purchase consideration of ₹ 440 Lakh. The Vikas Ltd. paid the purchase consideration issuing debentures of ₹ 100 each at 10% premium. Give journal entries in the books of the Vikas Ltd.

(e) On 01.01.2010, Fine Ltd. issued 1,000, 15% Convertible Debentures of ₹ 200 each at a discount of 5% redeemable at par after 5 years by converting their holdings into equity shares of ₹ 100 each at a premium of 20%.

Give the journal entry as on 31.12.2014.

(f) On January 1, 2014 Fast Ltd. incurred organization costs/preliminary expenses of ₹48,000. What portion of the organization costs will Fast Ltd. defer to years subsequent to, 2014?

(g) "There is no difference between the term Original Voucher and the term Collateral Vouches" – comment.

(h) State the meaning of "Voluntary Audit".

(i) State the meaning of "Information Security Audit".

(j) List the advantages that are associated with proper verification of assets.

2. (Answer any 2 questions)

(a) (i) Moon Ltd. has entered into a sale contract of ₹4 crores with Poonam Ltd. during 2013-14 financial year. The profit on this transaction is ₹60 lakhs. The delivery of goods to take place during the first month of 2014-15 financial year. In case of failure of Moon Ltd. to deliver within the schedule a compensation of ₹1.20 crore is to be paid to Poonam Ltd. Moon Ltd. planned to manufacture the goods during the last month of the 2013-14 financial year. As on Balance Sheet date 31.3.2014, the goods were not manufactured and it was unlikely that Moon Ltd. will be in a position to meet the contractual obligation.
Should Moon Ltd. provide for contingency as per AS- 29? **[4]**

(ii) Discuss the uses of the general purpose financial statements by the cross-section of users. **[4]**

(b) Tarun Ltd. has taken an asset on lease from Barun Ltd for a period of 3 years. Annual Lease rental are ₹8 lakhs payable at the end of every year. The residual value guaranteed by Tarun is ₹3 lakhs whereas Barun expects the estimated salvage value to be ₹6 lakhs at the end of the lease term. If the fair value of the asset at the lease inception is ₹15 lakhs and the interest rate implicit in the lease is 18%, compute the Net Investment in the lease from the viewpoint of Barun Ltd and the annual finance income. **[8]**

(c) (i) Explain Integral & Non-integral foreign operation. Give one example of Integral & Non-integral foreign operation each. **[4]**

(ii) In the context of relevant Accounting Standards, give your comment on the following matter for the financial year ended 31st March, 2013:
"Increase in pension liability on account of wage revision in 2012-13 is being provided for in 5 installments commencing from that year. The remaining liability of ₹ 600 lakhs as redetermined in actuarial valuation will be provided for in the next 2 years". **[4]**

3. (Answer any 2 questions)

(a) (i) Cool & Care Ltd. planned to set up a unit for manufacture of bulk drugs. For the purpose of financing the unit, the Board of Directors have issued 20,00,000 Equity Shares of ₹10 each. 25% of the issue was reserved for Promoters and the balance was offered to the public. P Ltd., Q Ltd. and R Ltd. have come forward to underwrite the public issue in the ratio of 3:2:1 and also agreed for Firm Underwriting of 50,000, 35,000, 15,000 Shares respectively. The Underwriting Commission was fixed at 5%. The amount payable on application was ₹ 2.50 per share. The details of subscriptions are:

Particulars	Marked Forms of P	Marked Forms of Q	Marked Forms of R
No. of Shares	6,50,000	3,00,000	2,00,000

Unmarked Forms were received for 1,20,000 Shares. From the above, you are required to show the allocation of liability among underwriters with workings. Also, pass Journal Entries in the books of the Company for

a. Underwriters' net liability and the receipt or payment of cash to or from underwriters

b. Determining the liability towards the payment of commission to the Underwriters. **[12]**

(ii) Green India Ltd. has five segments namely T, P, R, S & U. The total assets of the company are ₹22 crores, segment T has ₹ 4 crores., segment P has ₹6 crores., segment R has ₹3 crore, S has ₹5.5 crores, and U has ₹3.5 crores, deferred tax assets included in the assets of each segments are T - ₹1.50 crores; P - ₹1.29 crores; R - ₹1.10 crores; S - ₹2.25 crores & U - ₹1.35 crores. The accountant contended that all the five segments are reportable segments. Comments. **[4]**

(b) (i) X Ltd. has the following balances as on 1st April, 2014

	₹
Fixed Assets	16,40,000
Less: Depreciation	4,36,000
	12,04,000
Stocks and Debtors	7,25,000
Bank Balance	1,22,500
Creditors	2,24,000
Bills payable	1,76,000
Capital (Shares of ₹100 each)	7,50,000

The Company made the following estimates for financial year 2014-15:

(i) The company will pay a free of tax dividend of 20% the rate of tax being 30%.

(ii) The company will acquire fixed assets costing ₹3,20,000 after selling one machine for ₹45,000 costing ₹1,95,000 and on which depreciation provided amounted to ₹1,66,500.

(iii) Stocks and Debtors, Creditors and Bills payables at the end of financial year are expected to be ₹6,70,000, ₹1,88,000 and ₹1,52,800 respectively.

(iv) The profit would be ₹2,04,500 after depreciation of ₹2,14,000.

Prepare the projected cash flow statement and ascertain the bank balance of X Ltd. at the end of Financial year 2014-15. **[8]**

(ii) The following are the Balance Sheets of Tufan Ltd. and Tuhin Ltd. for the year ending on 31st March, 2015.

(₹ in Crores)

	Tufan Ltd.	Tuhin Ltd.
Equity Share capital @ ₹ 10 each	100	80
Preference Share capital - in 12% preference shares of ₹ 100 each	–	120
Reserves and surplus	400	300
	500	500
Loan - Secured	200	200
Total	700	700
Fixed assets (at cost less depreciation) - Tangible	300	300
Current assets less Current liabilities	400	400
Total	700	700

Note : Secured Loan to repayable within 12 months.

The present worth of Fixed assets of Tufan Ltd. is ₹400 crores and that of Tuhin Ltd. is ₹858 crores. Goodwill of Tufan Ltd. is ₹80 crores and of Tuhin Ltd. is ₹150 crores.

Tuhin Ltd. absorbs Tufan Ltd. by issuing equity shares at par in such a way that intrinsic networth is maintained.

Goodwill account is not to appear in the books. Fixed assets are to appear at old figures

- Draft a statement of valuation of shares on intrinsic value basis and prove the accuracy of your workings; and
- Journal entries in the books of Tuhin Ltd. **[8]**

(c) The draft balance sheet of H Ltd. as on 31.03.2014: (Figures in ₹ Lakhs)

Liabilities	Amount	Assets	Amount
Equity Share Capital (in equity shares of ₹ 10 each)	4.00	Fixed Assets less depreciation to date	6.00
10% Preference Share Capital	3.00	Stock and debtors	5.30
General Reserve	1.00	Cash and Bank	0.70
Profit & Loss Account	1.00		
Creditors	3.00		
	12.00		12.00

M Ltd. another existing company holds 25% of equity Share capital of H Ltd. purchased at ₹10 per share.

It was agreed that M. Ltd. should take over the entire undertaking of H Ltd. on 30.09.2014 on which date the position of current assets (except cash and bank balances) and creditors was as follows:

Stock and debtors	4 lakhs
Creditors	2 lakhs

Profits earned for half year ended 30.09.2013 by H Ltd. was ₹ 90,000 after charging depreciation of ₹ 32,500 on fixed assets. H Ltd. declared 10% dividend for 2013-14 on 30.08.2014 and the same was paid within a week.

Goodwill of H Ltd. was valued at ₹ 1,20,000 and block assets were valued at 10% over their book value as on 31.03.2014 for purposes of take over. Preference shareholders of H Ltd. will be allotted 10% preference shares of ₹ 10 each by M Ltd. Equity share holders of H Ltd. will receive requisite number of equity shares of ₹ 10 each from M Ltd. valued at ₹ 10 per share.

- Compute the purchase consideration.
- Explain, how the Capital reserve or goodwill, if any, will appear in the balance sheet of M Ltd. after absorption. **[16]**

4. (Answer any 2 questions)

(a) (i) External confirmations are more reliable evidence than internal confirmations - Comment. **[5]**

(ii) State the essentials of an Internal Control System. **[3]**

(iii) List the scope of efficiency cum performance audit. **[3]**

(iv) List the objectives of Social Audit. **[2]**

(v) Discuss the areas to be covered by an auditor while splitting the shares of face value from ₹ 10 to ₹ 2 per share of a company as per section 61(1) of Companies Act, 2013. **[3]**

(b) (i) Mr. Jaggu, Auditor of Baiju Limited is of the opinion that 'Standards on Auditing' are meant only for reference purpose and it is not necessary to follow such standards while auditing. Give your comments. **[5]**

(ii) Discuss – "appointment of auditors in the case of a company in voluntary liquidation". **[3]**

(iii) Discuss the areas to be considered by an auditor regarding Salaries and Wages of an organization, during his audit. **[8]**

(c) (i) Write a note on - Teeming & Lading. **[7]**

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

(iii) State the reasons for disqualification of a voucher. **[4]**