

## Paper 12 – Company Accounts & Audit

Whenever necessary suitable assumptions may be made and disclosed by way of note.  
Working Notes should form part of the answers

### Section A

#### (1) Answer the following (compulsory) [2x2=4]

- (i) What are the conditions to be satisfied to classify an asset as Current asset?
- (ii) What are the disclosure requirements pertaining to share application money?

#### (2) Answer any two Questions [2x8=16]

(a) A Fixed Asset purchased for ₹20 lakhs, Govt. grant is received ₹8 lakhs (useful life is 4 years, residual value ₹4 lakhs) grant becomes refundable in 3rd year to the extent of ₹6 lakhs. Show accounting under different alternatives assuming SLM method of depreciation. [8]

(b) ACA Softex Ltd. has taken the assets on lease from ACS Impex Ltd. The following information is given below:

Lease term	=	4 years
Fair value at inception of lease	=	₹ 16,00,000
Lease Rent	=	₹ 5,00,000 p.a. at the end of year
Guaranteed Residual Value	=	₹ 1,00,000
Expected Residual Value	=	₹ 3,00,000
Implicit Interest Rate	=	14.97%

Do the accounting in the book of lessee (except Balance Sheet)?

[8]

(c)(i) S. Pharma Ltd. in the past three year spent ₹55,00,000 to develop a Drug to treat Cancer, which was charged to Profit and Loss Account since they did not meet AS-8 criteria for capitalization. In the current year approval of the concerned Govt. Authority has been received. The Company wishes to capitalize ₹55,00,000 and disclose it as a prior period item. Is it correct? Give reason for your views. [4]

(ii) When to recognise the Provision? [4]

### Section B

#### (3) Answer the following (compulsory) [4x2=8]

- (i) Can Geographical Segments exist within the same country?
- (ii) What are the difference between Initial Public Offer and Follow on Public Offer?
- (iii) What are the sources of buy-back of shares?
- (iv) Explain the disclosure requirement of debit balance in the Statement of Profit and Loss and in Reserve and Surplus under revised schedule VI.

**(4) Answer any two Questions [2x16=32]**

**(a)** The following is the extract of trial balance of Shiva Ltd as on 31<sup>st</sup> March is as under:

Liabilities	Debit (₹)	Credit (₹)
Authorized, Issued Equity Share Capital 20,000 Shares of ₹ 100 each		20,00,000
10,000 Preference Shares (7%) of ₹ 100 each		10,00,000
Sundry Creditors		7,00,000
Bank Overdraft		3,00,000
Goodwill	2,00,000	
Plant and Machinery	18,00,000	
Stock	3,00,000	
Debtors	7,50,000	
Preliminary Expenses	1,00,000	
Cash	1,50,000	
Profit and Loss Account	7,00,000	
<b>Total</b>	<b>40,00,000</b>	<b>40,00,000</b>

Two years' Preference Dividends are in Arrears. The Company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend, provided the capital base is reduced.

An Internal Reconstruction Scheme as follows was agreed to by all concerned:

- Creditors agreed to forego 50% of the claim.
- Preference Shareholders withdrew Arrear Dividend claim. They also agreed to lower their Capital claim by 20% by reducing Nominal Value, in consideration of 9% Dividend effective after reorganization, in case Equity Shareholders' Loss exceed 50% on the application of the scheme.
- Bank agreed to convert Overdraft into Term Loan to the extent required for making Current Ratio equal to 2:1.
- Revalued figure for Plant and Machinery was accepted as ₹ 15,00,000.
- Debtors to the extent of ₹ 4,00,000 were considered good.
- Equity Shares shall be exchanged for same number of Equity Shares, at a revised denomination as required after reorganisation.

Show:

- Total Loss to be borne by the Equity and Preference Shareholders for the Reorganisation,
- Share of Loss to the Individual Classes of Shareholders,
- New Structure of Share Capital after Reorganisation,
- Working Capital of the Reorganized Company, and
- A Proforma Balance Sheet after Reorganisation.

**[16]**

**(b) (i)** Prepare Cash Flow Statement of Kapil Ltd for the year as per AS-3, from the following data. (Make necessary assumptions wherever required). **[8]**

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

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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

**(ii)** From the following particulars of Ajanta Ltd, you are required to calculate the managerial remuneration in the following situation:

- (a) There is only one whole time director;
- (b) There are two whole time directors;
- (c) There are two whole time directors, a part time director and a manager;

Particulars	Amount (₹)
Net profit before provision for 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 of office premises during the year	50,000
Depreciation allowable under section XIV	2,60,000
Actual expenditure incurred on repairs during the year	35,000

**[8]**

**(c)(i)** Following is the extract of the Balance Sheet of S.R. Ltd. a Listed Company as at 31<sup>st</sup> March:

Particulars	₹	Particulars	₹
Authorised Capital:		Reserves and Surplus:	
40,000,12% Preference Shares of ₹ 10 each	4,00,000	Revaluation Reserves	80,000
4,00,000 Equity Shares of ₹ 10 each	40,00,000	General Reserves	5,00,000
	44,00,000	Capital Reserve	3,00,000
Issued and Subscribed Capital		Securities Premium	1,00,000
3,60,000 Equity Shares of ₹ 10 each Fully Paid Up	36,00,000	Profit & Loss (Cr.)	7,00,000
32,000,12% Preference Shares of ₹ 10 each Fully Paid	3,20,000	Secured Loan - 12% Partly Convertible Debentures at ₹ 100 each	20,00,000

On 30<sup>th</sup> April, the Company decided to capitalize its Reserves by way of Bonus, at the rate 1:4. Securities Premium of ₹1,00,000 includes a Premium of ₹20,000 for Shares issued pursuant to a scheme of amalgamation. Capital Reserve includes ₹1,60,000, being Profit on sale of Plant and Machinery. 20% of 12% Debentures are convertible into Equity Shares of ₹ 10 each Fully Paid on 30<sup>th</sup> April.

State with reasons on the following:

1. Whether Revaluation Reserve be capitalized?
2. How much amount of Capital Reserve can be capitalized?

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3. How much amount of Securities Premium A/c can be capitalized?
  4. Are the Convertible Debentureholders entitled to Bonus Shares?
  5. What is minimum number of Equity Shares to be issued by way of Bonus on 30th April?
  6. What should be the minimum amount of Authorized Capital, if the decision to issue Bonus Shares gets implemented?
- [8]**

(ii) Sunny Ltd. is to be liquidated. Their summarized balance Sheet as at 30.9.12, appears as under:

Ref No.	Particulars	Note No.	As at 30th Sep, 2012
1	EQUITY AND LIABILITIES		
	(a) Share capital @₹10 each		75,00,000
	(b) Reserves and surplus		(60,00,000)
3	Non-current liabilities		
	(a) Long-term borrowings	1	90,00,000
4	Current Liabilities		
	(a) Trade payables		1,05,00,000
	Total (1+2+3+4)		2,10,00,000
II	ASSETS		
1	Non-current assets		
	(a) Fixed assets		
	(i) Tangible assets	2	75,00,000
2	Current assets		1,35,00,000
	Total (1+2)		2,10,00,000

### Notes on accounts

Note 1. Long Term borrowing	As at 30th Sep, 2012
Debenture (Secured by Land & building)	30,00,000
Unsecured Loan	60,00,000
<b>Total</b>	<b>90,00,000</b>

Note 2. Tangible assets	As at 30th Sep, 2012
Land & Building	15,00,000
Other Fixed Assets	60,00,000
<b>Total</b>	<b>75,00,000</b>

Contingent Liabilities are: (a) Bills Discounted ₹ 3,00,000; and (b) Excise Duty Demand ₹ 4,50,000

On investigation, it is found that the Contingent Liabilities are certain to devolve and that the Assets are likely to be realized as (a) Land & Building ₹ 33,00,000; (b) Other Fixed Assets ₹ 54,00,000; (c) Current Assets ₹1,05,00,000. Taking the above into account, prepare the Statement of Affairs. **[8]**

### **Section C**

#### **(5) Answer the following (compulsory) [4x2=8]**

- (i) State the difference between Permanent audit file and Current Audit File.
- (ii) What is the difference between Management Fraud and Employee Fraud?
- (iii) Differentiate between Financial Audit and Cost Audit.
- (iv) Differentiate between Financial Audit and Management Audit.

#### **(6) Answer any one Question [1x8=8]**

(i) You are the Chief of the Internal Audit Department of a large manufacturing concern. As the head of the department your duty, inter alia, is to advise on and observe the maintenance of proper records of plants, machinery, and tools and dies as well as to keep a watch upon the changes of obsolescence of the plants and machineries. Draft a suitable programme by which you can discharge your duties properly. **[8]**

(ii)(a) How will you verify preliminary expenses? **[4]**

(b) How will you vouch interest and dividends received? **[4]**

#### **(7) Answer any two Questions [2x12=24]**

(a) Draft an Audit Programme to audit the receipts of a Cinema Theatre owned by a 'Partnership Firm. **[12]**

(b) Answer the following [2x6=12]

(i) Write short notes on Appointment of Auditors by Shareholders.

(ii) Outline the matters to be included in the Company Auditors' Report u/s 227.

(c) Write short notes on the following [3 x4=12]

(i) Discuss the basic principles governing an Audit.

(ii) Distinguish between Explanatory Notes and Qualificatory Notes.

(iii) Distinguish between Principles & Techniques of Auditing.