

Paper – 12: Company Accounts and Audit

MTP_Intermediate_Syllabus 2012_Jun2015_Set 1

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
		Identify	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) State the types of lease to which AS-19 are not applicable.

(b) There is an income tax demand of ₹ 7.5 lakhs against the company relating to prior years against which the company has gone on appeal to the appellate authority in the department. The ground of appeal deals with the points covering ₹ 5.4 lakhs of the demand. State how the matter will have to be dealt with in the financial account for the year.

(c) A Company is planning to raise funds by making rights issue of equity shares to finance its expansion.

The existing equity share capital of the company is ₹ 150,00,000. The market value of its share is ₹ 42. The company offers to its shareholders the right to buy 2 shares at ₹ 11 each for every 5 shares held.

You are required to calculate the theoretical market price after rights issue.

(d) The share capital of A Ltd. consists of 2,00,000 equity shares of ₹ 10 each, and 50,000 preference shares of ₹ 100 each, fully called up. Its securities premium account shows a balance of ₹ 80,000 and general reserve of ₹ 14,00,000. The company decides to buy-back 40,000 equity shares of ₹ 12 each.

Pass the journal entry showing the transfer of amount from General Reserve to Capital Redemption Reserve only.

(e) A company issued 10,000 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.

(f) Discuss ESOP.

(g) Discuss test checking in Audit Work.

(h) State the purposes of Standards on Internal Audit (SIA).

(i) State the process of fixing remuneration of a company auditor as per Companies Act, 2013 section 142.

(j) Discuss the provisions of the Companies Act, 2013 regarding signing the Auditors Report by the Auditor as per section 141.

2. (Answer any 2 questions)

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- (a) (i)** In April, 2014, Mukta Ltd. issued 36,00,000 Equity Shares of ₹10 each, ₹5 per share was called upon that date which was paid by all the shareholders. The remaining ₹5 was called upon 1-9-2014. All the Shareholders (except one having 7,20,000 shares) paid the sum in September 2014. The net profit for the year ended 31.03.2015 is ₹66 lakhs after dividend on Preference Shares and Dividend distribution tax of ₹13.20 Lakhs.

Compute the basic EPS for the year ended 31st March,2015 as per Accounting Standard – 20. **[6]**

- (ii)** Y Ltd. sold machinery having WDV of ₹ 80 lakhs to X Ltd. for ₹100 lakhs and the same machinery was leased back by X Ltd. to Y Ltd. The lease back is operating lease.

Comment if —

Fair value is ₹ 90 and sale price is ₹76 lakhs. **[2]**

- (b) (i)** A Ltd. purchased fixed assets costing ₹ 5,100 lakhs on 1.1.10 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal installments. Exchange rates were 1 Dollar = ₹ 42.50 and ₹ 45.00 as on 1.1.10 and 31.12.10 respectively. First installment was paid on 31.12.10. The entire difference in foreign exchange has been capitalized.

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

- (ii)** The Following data apply to a company's defined benefit pension plan for the year:

Particulars	Amount (₹)
Fair market value of plan assets (beginning of year)	4,00,000
Fair market value of plan assets	5,70,000
Employer Contribution	1,40,000
Benefit Paid	1,00,000

Calculate the actual return on plan assets. **[3]**

- (c) (i)** On 1st January, 2015 Ambika Ltd. incurred organization cost/ preliminary expenses of ₹48,000. What portion of the organization costs will Ambika Ltd. defer to years subsequent to 2014? **[3]**

- (ii)** State the disclosure requirement as per Accounting Standard – 20. **[5]**

3. (Answer any 2 questions)

- (a) (i)** From the following particulars of Uttam 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	₹
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Net Profit before Income Tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	13,05,615
Depreciation provided in the Books	4,65,000
Provision for Repairs for Machinery during the year	37,500
Depreciation Allowable under Schedule II	3,90,000
Actual Expenditure incurred on Repairs during the year	22,500

[6]

(ii) Following details are given for Sumangal Ltd. for the year ended 31st March, 2015:

(₹ in lakhs)

Sales:		
Food Products	22,600	
Plastic and Packing	2,500	
Health and Scientific	1,380	
Others	648	27,128
Expenses:		
Food Products	13,340	
Plastic and Packing	1,700	
Health and Scientific	888	
Others	800	16,728
Other Items:		
General corporate Expenses		2,248
Income from investments		728
Interest expenses		260
Identifiable assets:		
Food Products	29,280	
Plastic and Packing	5,280	
Health and Scientific	4,200	
Others	2,660	41,420
General Corporate Assets		2,888

Other Information:

- Inter-segment sales are as below:

(₹ in lakhs)

Food Products	220
Plastic and Packing	288
Health and Scientific	84
Others	28

- Operating profit includes ₹132 lakhs on inter-segment sales.
- Information about inter-segment expenses are not available.

You are required to prepare a statement showing financial information about Sumangal Ltd.'s operations in different industry segments. **[10]**

(b) M.P. Ltd. furnishes you the following Balance Sheet as at 31st March –

(₹ Crores)

Particulars	₹	₹
Sources of Funds		
Share Capital: Authorised		300

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Issued: Equity Shares of ₹ 10 each fully paid	75	
15% Redeemable Preference Shares of ₹ 100 each fully paid	225	300
Reserves and Surplus: Capital Reserve	45	
Securities Premium	75	
Revenue Reserves	780	900
Total		1,200
Application of Funds:		
Fixed Assets: Cost	300	
Less: Provision for Depreciation	300	NIL
Investments at Cost (Market Value ₹ 1,200 Crores)		300
Net Current Assets: Current Assets	1,020	
Less: Current Liabilities	120	900
Total		1,200

The Company redeemed its preference shares on 1st April. It also Bought Back 150 Lakh Equity Shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the substantial Bank Balances, which appeared as part of current assets.

You are required to –

- Pass the necessary Journal Entries to record the above.
- Prepare the Company's Balance Sheet after the above transactions.
- Value the Equity Shares on Net Assets Basis.

[16]

(c) (i) From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2015 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.03.2015

	₹ '000		₹ '000
Balance on 1.4.2015	125	Payment to Suppliers	5,000
Issue of Equity Shares	750	Purchase of Fixed Assets	500
Receipts from Customers	7,000	Overhead expense	500
Sale of Fixed Assets	250	Wages and Salaries	250
		Taxation	625
		Dividend	125
		Repayment of Bank Loan	750
		Balance on 31.3.2015	375
	8,125		8,125

[8]

(ii) 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:

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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]

4. (Answer any 2 questions)

(a) (i) Verify the revenue recognition process for a Movie Ticket.

[4]

(ii) List the steps to Sales of a manufacturing unit.

[5]

(iii) Discuss the duties and the power of the company auditor in reference to the audit of the branch and the branch auditor.

[3]

(iv) Discuss — Audit Report versus Audit Certificate.

[4]

(b) (i) Explain the matters that do and that do not affect the auditor's opinion.

[7]

(ii) Discuss the disadvantages and the measures that can be taken to avoid those disadvantages of Continuous Audit.

[6]

(iii) "Internal Audit is an independent appraisal activity within the organization" — Discuss the features of Internal Audit.

[3]

(c)(i) Sun Ltd. is holding 80% of Equity Shares of Moon Ltd. and prepares the financial statement applying AS - 21, As an auditor how would you verify the cost of control and the minority interest as stated in the Consolidated Financial Statement.

[9]

(ii) "Cost data are very much useful to a company" — discuss.

[5]

(iii) State what is Inherent Risk?

[2]