Paper 12- Company Accounts & Audit

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Full Marks: 100 **Time allowed: 3 hours**

Section – A

I. Answer all the following questions:

1. Answer the following questions: [5 ×2 = 10]

(a) Foreign currency creditors at the end of the financial year are USD 10 Lakhs. Purchase were recorded at the exchange rate USD 1= ₹52. On the balance sheet date, the exchange rate is USD 1 = ₹54 which is not expected to be payable on the payment date. It has been estimated that around the payment time, the exchange rate will possibly be in the range of USD 1 - ₹55.00 to ₹56.50. At what value should the creditors be recorded in the balance sheet? What is the treatment of foreign exchange loss?

(b) The share capital of M Ltd. consists of 1,00,000 equity shares of ₹10 each, and 25,000 preference shares of ₹100 each, fully called up. Besides, its securities premium account shows a balance of ₹40,000 and general reserve of ₹7,00,000. The company decides to buy-back 30,000 equity shares of ₹12 each. For this purpose, it utilises the securities premium in full and general reserve to the extent necessary.

Pass the necessary journal entries only showing the effects on the securities premium account and the general reserve account.

(c) 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, compute the net effect on cash Flow.

(d) Mugdha Ltd. purchased a machinery of ₹20,00,000 from Machinery Mart. The consideration was paid in the form of fully paid up equity shares of ₹10 each at 60% premium. Pass necessary journal entries in the books of Mugdha Ltd.

(e) State the disclosure requirement of the following items as per Schedule III:
- Debit balance of Profit & Loss account
- Unsecured Bank loan

2. Match the following: [5×1=5]

	Column 'A'		Column 'B'
1.	AS - 17	B	Premium on issue of shares
2.	Tax paid	D	Segmental Reporting
3.	Capital profit	A	Dividend unpaid
4.	Contingent Liability	E	Revenue expenditure
5.	Current Liability	C	Notes to account

3. Answer the following question: [5x2=10]

(a) List the essential features of auditing
(b) State the significance of audit from legal point of view
(c) Comment on Secretarial audit for bigger companies with reference to Companies Act, 2013.
(d) List the contents of audit note book
(e) What are the objectives and functions of Auditing and Assurance Standard Board?

Section – B

II. Answer any three of the following: [3 × 15 = 45]

4. (a) On January 1, 2004 Vardhaman Ltd. allotted 20,000, 9% Debentures of ₹ 100 each at par, the total amount having been received along with applications.

(1) On 1st Feb., 2005 the Company purchased in the open market 2,000 of its own debentures @ ₹ 102 each and cancelled them immediately.
(2) On 1st January, 2008 the Company redeemed at par debentures for ₹ 3,00,000 by draw of a lot.
(3) On 1st June, 2010 the Company purchased debentures of the face value of ₹ 2,00,000 for ₹ 1,97,800 in the open market, held them as investments for one year and then cancelled them.
(4) Finally, as per resolution of the Board of Directors, the remaining debentures were redeemed at a premium of 3% on 1st Feb., 2014 when Securities Premium Account in the company's ledger showed a balance of ₹ 50,000.

Pass journal entries for the above mentioned transactions ignoring debentures redemption reserve, debenture-interest and interest on own debentures. **[12]**

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

Particulars	Amount (₹)
Fair market value of plan assets (begnning 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]**

5. (a) The Balance Sheets ZEET Ltd. and ASTAR Ltd. as on 31st March, 2015 were as follows:

Liabilities	ZEET Ltd.	ASTAR Ltd.
Equity Share Capital (fully paid shares of ₹20 each)	30,000	12,000
Securities Premium	6,000	------
General Reserve	19,000	7,020
Profit and Loss Account	5,740	1,650
12% Debentures	------	2,000
Bills Payable	240	------
Sundry Creditors	5,820	2,330
	66,800	25,000
Assets		

Land & Buildings	12,000	------
Plant and Machinery	28,000	10,000
Furniture & Fixtures	4,608	3,400
Stock	15,724	8,082
Debtors	4,240	2,040
Cash at Bank	2,228	1,218
Bills Receivable	------	160
Cost of Issue of Debentures	---------	100
	66,800	25,000

All the bills receivable held by ASTAR Ltd. were ZEET Ltd.'s acceptances.

On 1st April, 2016 ZEET Ltd. took over ASTAR Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business ZEET Ltd. would allot three fully paid equity shares of ₹20 each at par for every two shares held in ASTAR Ltd. It was also agreed that 12% debentures in ASTAR Ltd. would be converted into 13% debentures in ZEET Ltd. of the same amount and denomination. Expenses of amalgamation amounting to ₹ 2,00,000 were borne by ZEET Ltd. Pass necessary journal entries in the books of ZEET Ltd. **[10]**

(b) X Ltd. has leased equipment over its useful life that costs ₹7,46,55,100 for a three year lease period. After the lease term the asset would revert to the Lessor. You are informed that:

(i) The estimated unguaranteed residual value would be ₹ 1 lakh only.

(ii) The annual lease payments have been structured in such a way that the sum of their present values together with that of the residual value of the asset will equal the cost thereof.

(iii) Implicit interest rate is 10%.

You are required to ascertain the annual lease payment and the unearned finance income. P. V. factor @ 10% for years 1 to 3 are 0.909, 0.826 and 0.751 respectively. **[5]**

6. (a) Kachari Limited granted 25,000 employees stock options (face value ₹10) on 1st April, 2012 at ₹100, when the market price was ₹425. The options were to be exercised between 16th October, 2012 and 15th March, 2014. The employees exercised their options for 22,500 shares only. The remaining options lapsed. The company closes its books on 31st March every year. Pass Journal entries. **[7]**

(b) Mogari Limited has 10% Redeemable Preference share capital of ₹30,00,000 consisting of ₹10 shares fully paid up. The company wants to redeem these shares at 25% premium.
The ledger accounts show the following balances:

Securities premium	₹1,00,000;
General Reserve	₹13,00,000 and
Profit & Loss Account (Cr.)	₹7,00,000

In order to facilitate the redemption of preference shares, the company decided the following:

1. 1,20,000 Equity shares of ₹10 each were issued at 50% premium.
2. 10,000, 12% Debenture of ₹100 each were issued at par.
3. Investments of book value ₹5,00,000 were sold at ₹5,60,000.

Pass the necessary journal entries to record above transactions and redemption of preference shares. **[8]**

7. (a) 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]**

(b) Tiptop Ltd. came out with an issue of 45 lakh 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 P, Q and R respectively.
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:

P	7,25,000 shares
Q	8,40,000 shares
R	13,10,000 shares
	28,75,000 shares

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:
(1) Compute the underwriters" liability (number of shares);
(2) Compute the amount payable as due to underwriters; and
(3) Pass necessary Journal Entries in the books of Tiptop Ltd. relating to underwriters. **[12]**

(Note: As per contract, the underwriters are to be given credit for "firm" applications and that credit for unmarked applications be given in proportion to the shares underwritten.)

Section – C
Answer any two questions

8. (a) Mr. Raghav, who is a chartered accountant, wants to conduct the audit of Ram-Shyam Limited. State the disqualifications that would make him ineligible for the post.
(b) Should an auditor sign his audit report? **[10+5 = 15]**

9. (a) What is Audit Programme? State its advantages.
(b) Distinguish between clean audit report and qualified audit report. **[8+7 = 15]**

10. (a) State the objectives of cost audit from the point of view of Government.
(b) Discuss briefly the scope of Audit Committee in public limited company. **[7+8 = 15]**