

PTP_Intermediate_Syllabus 2012_Dec2014_Set 1

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) What we understand by the term "Prudence"?
- (b) The share capital of M Ltd. consists of 2,00,000 equity shares of ₹10 each, and 50,000 preference shares of ₹100 each, fully called up. Besides, its securities premium account shows a balance of ₹80,000 and general reserve of ₹14,00,000. The company decides to buy-back 60,000 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) State any four Indian Accounting Standards which make use of Fair Value.
- (d) Journalise the following transaction:
Machinery worth ₹76 Lakhs was purchased. The amount due to the Vendor was settled by way of issue of 6% Debentures of ₹400 each, issued at a discount of 5%.
- (e) Calculate from the following information- Theoretical ex-right fair value
- Number of equity shares outstanding 2 lakhs
 - Right issue 2 shares for each 5 shares
 - Fair value per share before right ₹ 34.00
 - Right issue price ₹ 20.00.
- (f) Goodwill arising on acquisition as per AS-14 is to be treated as per AS-26. Comment.
- (g) What is meant by the term "Judgmental Sampling"?
- (h) State the reason of conducting an efficiency audit.
- (i) State the procedure for appointment of an auditor of a company.
- (j) What we understand by the term 'partial audit'?

2. (Answer any 2 questions)

- (a) (i) S. S. CORPORATE SECURITIES Ltd. is showing an intangible asset at ₹ 72 lakhs as on 01.04.2013 and that an item was acquired for ₹ 96 lakhs on 01.04.2010 and that the item was available for use from that date. It has been following the policy of amortisation of the intangible

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asset over a period of 12 years on straight line basis. As per AS 26 how will it affect the accounts? [4]

(ii) Who are the intended users of the Financial Statement? [4]

(b) (i) Write a note on Financial Lease as per AS – 19. [6]

(ii) X Ltd. sold machinery having WDV of ₹60 lakhs to M Ltd. for ₹75 lakhs and the same machinery was leased back by M Ltd. to X Ltd. The lease back is operating lease. If sale price of ₹75 lakhs is equal to fair value how X Ltd. will treat the difference in its account? [2]

(c) Explain the treatment of the following:

- (i) A firm acquired a fixed asset for ₹ 500 lakhs on which the Government grant received was 40%.
- (ii) Capital subsidy received from the Central Government for setting up a plant in the notified backward region. Cost of the plant ₹ 450 lakhs, subsidy received ₹ 150 lakhs.
- (iii) ₹ 50 lakhs received from the State Government for the setting up of water-treatment plant.
- (iv) ₹75 lakhs received from the local authority for providing medical facilities to the employees. [2×4=8]

3. (Answer any 2 questions)

(a) (i) Uday Ltd. issued 8% Debentures of ₹3,00,000 in earlier year, on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase its Own Debenture in the Open Market for cancellation thereof. The following purchases were made during the Financial Year 2013-2014 and cancellation made on 31st March 2014 —

- On 1st April, ₹50,000 Nominal Value purchased for ₹49,450 ex-interest.
- On 1st September, ₹30,000 Nominal Value purchased for ₹30,250 cum-interest.

Show the Journal Entries for the transactions held in year 2013-14. [10]

(ii) Following information relates to Utkal Ltd. State under which heads these items will appear in the Balance Sheet as per Revised Schedule VI ?

- 2,00,000 8% Preference Share of ₹100 each.
- Investment of ₹45,00,000 in 40,000 12% Debenture of ₹100 each of Amrit Ltd.
- License of ₹18,00,000 for Mining Right.
- Loan repayable on demand of ₹20,00,000 from X Bank.
- Provision for taxation of ₹88,000.
- Stock in transit of ₹80,000. [6]

(b) (i) Bharat Ltd. which had experienced trading difficulties decided to reorganise its finances. On 31st March, a Final Trial Balance extracted from the books of the Company showed the following position: (in ₹)

Particulars	Dr.	Cr.
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Share Capital, Authorised and Issued:		
1,500 6% Cumulative Preference Shares of ₹ 100 each		1,50,000
2,000 Equity Shares of ₹ 100 each		2,00,000
Capital Reserve		36,000
Profit and Loss Account	1,10,375	
Preliminary Expenses	7,250	
Goodwill at Cost	50,000	
Trade Creditors		42,500
Debtors	30,200	
Bank Overdraft		51,000
Leasehold Property at Cost	80,000	
Lease hold Property Provision for Depreciation		30,000
Plant and Machinery at Cost	2,10,000	
Plant and Machinery Provision for Depreciation		57,500
Stock-in-Trade	79,175	
Total	5,67,000	5,67,000

Approval from appropriate authorities was obtained for the following scheme for Reduction of Capital -

- Preference Shares to be reduced to ₹ 75 per Share and Equity Shares to be reduced to ₹ 12.50 per Share.
- One ₹ 12.50 Equity Share to be issued for each ₹ 100 of Gross Preference Dividend Arrears, the Preference Dividend had not been paid for three years.
- The balance in Capital Reserve Account to be utilized.
- Plant and Machinery to be written down to ₹ 75,000.
- Profit and Loss Account balance and all Intangible Assets to be written off.

At the same time as the resolution to reduce Capital was passed, another resolution was approved restoring the Total Authorised Capital to ₹ 3,50,000 consisting of 1,500 6% Cumulative Preference Shares of ₹ 75 each and the balance in Equity Shares of ₹ 12.50 each. As soon as the above resolution had been passed, 6,000 Equity Shares were issued at par for cash payable in full upon application. The same were fully subscribed and paid.

You are required to show the Journal Entries necessary to record the above transaction in the Company's books. **[10]**

(ii) A liquidator is entitled to receive remuneration at 2% on the Assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹50,00,000 against which payment was made as follows:

Liquidation Expenses	₹50,000
Secured Creditors	₹20,00,000
Preferential Creditors	₹1,50,000

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The amount due to Unsecured Creditors was ₹30,00,000. Calculate the Total remuneration payable to Liquidator. **[6]**

(c) (i) The Chief Accountant of BHD Ltd. gives the following data regarding its six segments:

Particulars	M	N	O	P	Q	R	Total
Segment Assets	50	25	10	5	5	5	100
Segment Results	-50	-140	80	10	-10	10	-100
Segment Revenue	200	320	200	90	90	100	1000

Determine the reportable segments as per AS – 17. **[4]**

(ii) Mr. Sen of Moon Light Limited has collected the following information for the preparation of cash flow statement for the year ended 30.06.2013 :

	(₹ in lakhs)
Net Profit	30,000
Dividend (including dividend tax) paid	8,535
Provision for Income-tax	6,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the assets sold	185
Depreciation charged to Profit & Loss Account	20,000
Amortisation of Capital grant	10
Profit on sale of Investments	100
	(₹ in lakhs)
Carrying amount of Investment sold	27,765
Interest income on investments	2,510
Interest expenses	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
Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and Bank balance	5,003
Closing cash and Bank balance	12,984

Required :

Prepare the Cash Flow statements for the year in accordance with AS-3 on Cash Flow statements issued by the Institute of Chartered Accountants of India (Make necessary assumptions). **[12]**

4. (Answer any 2 questions)

(a) (i) List the factors that influence an auditor's judgment at the time of obtaining audit evidence and how he obtains such evidence? **[5+3=8]**

(ii) State the meaning of Continuous Audit and the advantages of Continuous Audit. **[3+5=8]**

(b) (i) Describe the techniques used to evaluate an Internal Control System. **[4]**

(ii) Describe the procedure of submission of Cost Audit Report by the Auditor of a Company. **[4]**

(iii) Who can audit the accounts of a branch of a company? **[2]**

(iv) Mr. A. Bhagat is a whole time director of Bhagirathi Ltd. Recently he visited Australia for an official purpose. You, as the auditor of the company, list the steps to be followed while conducting the audit of foreign travelling expenses of Mr. A. Bhagat. **[6]**

(c) (i) State the role of an auditor in verification of Imported Plant & Machinery. **[4]**

(ii) List the objectives and functions of Auditing and Assurance Standard Board (AASB). **[3]**

(iii) List the areas to be covered while conducting the audit of an NGO incorporated as a company under section 25 of the Companies Act, 1956. **[9]**