

Paper – 12: Company Accounts and Audit

PTP_Intermediate_Syllabus 2012_Dec 2015_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	List	Make a list of
	What you are expected to know	State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
		COMPREHENSION	Describe
	What you are expected to understand	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	Apply
	How you are expected to apply your knowledge	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	Analyse	Examine in detail the structure of
	How you are expected to analyse the detail of what you have learned	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	

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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]

- (i) A Company has its Share Capital divided into Equity Shares of ₹10 each. On 01.10.2013, it granted 20,000 Employees' Stock Option at ₹50 per Share, when Market Price was ₹120 per Share. The Options were to be exercised between 10.12.2013 and 31.03.2014. The Employees exercised their options for ₹ 16,000 Shares only, and the remaining options lapsed. The Company closes its books on 31st March every year. Show Journal Entry (with narration) as would appear in the Company's books upto 31.03.2014.
- (ii) RadhaKanta set up a new factory in the backward area and purchased Plant for ₹600 Lakhs for the purpose. Purchases were entitled for the CENVAT Credit of ₹12 Lakhs and also the Government agreed to extend 20% Subsidy for Backward Area Development. Determine the Depreciable Value of the Asset.

(iii) Compute the Weighted Average Number of Equity Shares in the following case:

		No of Shares
1 st April 2014	Balance of Equity Shares	4,80,000
31 st August 2014	Equity Shares issued for cash	3,60,000
1 st February 2015	Equity Shares bought back	1,80,000
31 st March 2015	Balance of Equity Shares	6,60,000

- (iv) An Oil Company causes contamination but does not clean up because there is no legislation requiring cleaning up. The Enterprise has been contaminating land for several years. On 31st March, it is virtually certain that a law requiring a clean-up of land already contaminated will be enacted shortly after the year end — Analysis.

(v) Distinguish between Amalgamation and Acquisition.

(vi) 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.
- 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 entry only showing the effects of buy-back (without showing the effect in Capital Redemption Reserve Account).

(vii) State what is complete audit.

(viii) List the advantages of Final Audit.

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- (ix) Discuss about remuneration of an auditor (Section 142 of the Companies Act,2013).
- (x) State the rules of Companies Act,2013 relating to the auditors to attend General Meeting.

- 2.(a) (i) Shiva Ltd imported a machine on 04.01.2009 for Euros 12,000, on deferred payment basis, payment in six equal annual installments at every financial year end, commencing from 31.03.2009 onwards. Use AS - 11 provisions and determine the exchange differences and carrying amounts of the liability at the end of each financial year, if the following exchange rates are given. Take One Euro equals Indian Rupees on –

04.01.2009	31.03.2009	31.03.2010	31.03.2011	31.03.2012	31.03.2013	31.03.2014
₹64.0900	₹63.0900	₹62.0800	₹60.5600	₹63.2400	₹68.3403	₹70.1005

[6]

- (ii) State any two types of lease to which AS-19 is not applicable.

[2]

- (b)(i) MahaLaya Ltd. borrowed ₹ 40,00,000 for purchase of Machinery on 01.06.20X1. Interest on Loan is 9% p.a. The Machinery was put to use from 01.01.20X2. Pass Journal Entry for the year ended 31.03.20X2 to record the Borrowing Cost of the Loan as per AS-16.

[4]

- (ii) The Net Profit Before Tax of Mitra Ltd. was ₹200 Lakhs and the Income Tax rate was 37%. The Company's Preference Share Capital has the following classes –

12% Non-Cumulative Preference Share Capital	₹ 200 Lakhs
10% Cumulative Preference Share Capital	₹ 300 Lakhs

In its accounts, Mitra Ltd has provided / paid following dividends on Preference Capital:

- On Non-Cumulative Preference Shares - fully provided for the current year.
- On Cumulative Preference Shares - fully provided for the past three years.

The Company also provided for Dividend Distribution Tax at 12.75% and transferred ₹ 10 Lakhs to General Reserve. You are required to calculate the Net Profit for the period, attributable to Equity Shareholders.

[4]

- (c)(i) An engineering goods Company provides after-sales warranty for 2 years to its customers. Based on past experience, the Company has the following policy for making Provision for Warranties on the Invoice Amount, on the remaining balance warranty period:

Less than 1 year: 2% provision
More than 1 year: 3% provision

The Company has raised invoices as under –

Invoice date	Amount (₹)
19.01.2011	40,000
29.01.2012	25,000
15.10.2012	90,000

Calculate the Provision to be made for Warranty under AS-29 as at 31.03.2012 and 31.03.2013. Also compute amount to be debited to Profit and Loss Account for the year ended 31.03.2013.

[4]

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- (ii) State how you will deal with the following matter in the account for the year ended 31.3.2014 The company has spent ₹ 90 lakhs for publicity and research expenses on one of its new consumer product which was marketed in the accounting year 2013-14 but proved to be a failure. **[4]**

- 3.(a)** Ting-Tong Ltd came up with an issue of 20,00,000 Equity Shares of ₹ 10 each, at par. 5,00,000 Equity Shares were issued to the Promoters and the balance offered to public was underwritten by 3 Underwriters - P, G and K - equally.

Excluding Firm Underwriting of 50,000 Shares each, subscriptions totaled 12,97,000 Shares including Marked Forms, which were as under: P-4,25,000 Shares, G-4,50,000 Shares, and K -3,50,000 Shares.

Each of the Underwriters had applied for the number of Shares covered by Firm Underwriting. The amount payable on Application and Allotment were ₹ 2.50 and ₹ 2 respectively. The agreed commission was 5%.

Pass journal entries for (i) Allotment of Shares to the Underwriters, (ii) Commission due to each of them, and (iii) Net Cash Paid and/or Received.

(Unmarked Application is to be credited to the Underwriters equally.)

[16]

- (b)(i)** OM Ltd. had ₹20,00,000, 8% Debentures of ₹100 each as on 31st March,2014. The company purchased Debentures in the Open Market following immediate cancellation:

On 01.07.2014: 2,000 Debentures at ₹97 (cum-interest).

On 29.02.2014: 3,600 Debentures at ₹99 (ex- interest).

Debenture Interest due dates are 30th September and 31st March.

Give Journal Entries in the books of the Company for the year ended 31st March, 2015.

[10]

- (ii)** A Company grants 1,000 Employees Stock Options on 01.04.2011 at ₹40, when the Market Price is ₹160. The Vesting Period is 2½ years and the Maximum Exercise Period is 1 Year. 300 Unvested Options lapse on 31.03.2013. 600 Options are exercised on 30.06.2014.100 Vested Options lapse at the end of the Exercise Period. Compute the expenses to be recognised. **[6]**

- (c)(i)** The Balance Sheet of Manoj Limited as at 31st March is given below -

Liabilities	₹	Assets	₹
2,00,000 Equity Shares of ₹10 each, ₹5 paid	10,00,000	Fixed Assets	11,40,000
6,00,000 8% Preference Shares of ₹100 each		Patents and Copyrights	80,000
9% Debentures	6,00,000	Investments at Cost (Mkt Value	
Add: Interest accrued on Debentures	6,00,000	₹ 55,000)	65,000
Bank Overdraft	1,08,000	Stock	4,00,000
Add: Interest accrued on Bank Overdraft	1,50,000	Debtors	4,39,000
Current Liabilities: Creditors	15,000	Bank	10,000
	69,000	Profit & Loss Account	4,08,000
Total	25,42,000	Total	25,42,000

Note: Preference Dividend is in arrear for one year.

The following scheme is agreed upon -

- Preference Shareholders to give up 30% of their claims, including Dividends, and desire to be paid off.
- Debentureholders give up their claims to interest in consideration of their interest being

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enhanced to 12%

- Bank agrees to give up 50% of its interest outstanding in consideration, of its being paid off at once.
- Creditors would like to grant a discount of 5% if they are paid immediately.
- Balance of Profit & Loss Account, Patents and Copyrights, and Debtors of ₹30,000 to be written off.
- Fixed Assets to be written down by ₹34,000 and Investments are to reflect their Market Value.
- To the extent not specifically stated, Equity Shareholders suffer on reduction of their rights.
- Cost of Reconstruction is ₹3,350.

Draft Journal Entries in the books of the Company assuming that the scheme has been put through fully with the Equity Shareholders bringing in necessary cash to pay off the parties, and to leave a Working Capital of ₹30,000. [9]

(ii) The following is the Balance Sheet of Upset Ltd. as on 30th September:

Equity & Liabilities	₹	Assets	₹
Share Capital: 11% Preference Shares of ₹ 10 each	1,00,000	Land and Building	1,20,000
10,000 Equity Shares of ₹ 10 each, fully paid	1,00,000	Sundry Current Assets	3,95,000
5,000 Equity Shares of 10 each, 7.50 paid	37,500	Profit & Loss Account	38,500
13% Debentures	1,50,000	Debenture Issue	
Mortgage Loan	80,000	Expenses not written off	2,000
Bank Overdraft	30,000		
Creditors for Trade	32,000		
Arrears of Income Tax (Assessments concluded in July for 2 prior Assessment years) (21,000 + 5,000)	26,000		
Total	5,55,500	Total	5,55,500

Other Information -

- Mortgage Loan was secured against Land and Buildings. Debentures were secured by a Floating Charge on all the other Assets.
- The Company was unable to meet the payments and therefore the Debenture holders appointed a Receiver and this was followed by a resolution for Members Voluntary Winding Up.
- The Receiver for the Debenture holders brought the Land and Buildings to auction and realised ₹1,50,000. He also took charge of Sundry Assets of the value of ₹2,40,000 and realised ₹2,00,000.
- The Liquidator realised ₹1,00,000 on the sale of the balance of Sundry Current Assets.
- The Bank Overdraft was secured by a personal guarantee of two of the Directors of the Company, and on the Bank raising a demand, the Directors paid off the dues from their personal resources.
- Costs incurred by the Receiver were ₹ 2,000 and by the Liquidator ₹2,800.
- The Receiver was not entitled to any Remuneration, but the Liquidator was to receive 3% Fee on the value of Assets realised by him.
- Preference Shareholders had not been paid dividend for 2 years, and interest for the last half-year was due to Debenture holders.

From the above information, prepare the Liquidator's Receipts and Payments Account. [7]

- 4. (a) (i)** Discuss the procedure of setting Auditing Standards. **[6]**
- (ii)** Audit Opinion is not an assurance as to the future viability of the enterprise or the efficiency or effectiveness with which management has conducted the affairs of the enterprise — Comment. **[4]**
- (iii)** Discuss the setup of a qualified and independent Audit Committee. **[6]**
- 4. (b) (i)** Discuss the matters to be considered for conducting an audit of a Hospital. **[8]**
- (ii)** Write a note on duties of an auditor regarding issue of debentures. **[4]**
- (iii)** Discuss class of companies as per sub-section (2) of section 139 of the Companies Act,2013. **[4]**
- 4. (c) (i)** According to the Institute of Internal Auditors, internal audit involves five areas of operations — Discuss. **[6]**
- (ii)** Discuss the rules regarding transfer of dividend to the Unpaid Dividend Account as per Section 124 and the effect of non-transfer of such amount. **[7]**
- (iii)** Discuss the scope of Efficiency-cum-performance Audit. **[3]**