

Paper – 12: Company Accounts and Audit

PTP_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	

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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]

- (a) Vikas sold 1,500, 10% debentures (face value ₹ 100 each) of Shiva Limited at ₹ 125 cum-interest on 01.12.2013. The interest is payable on 31st March and 30th September every year. Calculate the Profit.
- (b) Journalize the following transaction and calculate the number of shares issued.
FD Ltd. issued 7,000 shares of ₹100 each at a discount of 10% for purchase of asset costing ₹6,30,000.
- (c) Income from Operating Activities is ₹70 lakhs;
Fixed Asset sold for ₹100 lakhs;
Machinery purchased for ₹130 lakhs;
Income from Financing Activities is ₹20 lakhs, compute the net effect on Cash Flow.
- (d) State the disclosure requirement under schedule III of the following items:
- Debit balance of Profit & Loss account
 - Unsecured Bank loan
- (e) Pradip Ltd. in the past three year spent ₹ 56,00,000 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 Government Authority has been received. The Company wishes to capitalize ₹ 56,00,000 and disclose it as a prior period item. Is it correct? Give reason for your views.
- (f) A company follows a policy of refunding money to the dissatisfied customers if they claim within thirty days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.35% of the customers claim refunds. The company sold goods amounting to ₹42.50 lacs during the last month of the financial year. Is there any contingency?
- (g) List the steps involved in internal control.
- (h) Describe 'Qualified Audit Report'?
- (i) List any two differences between Financial Audit and Management Audit.
- (j) Vouch foreign travelling expenditure of a Director and list any two issues.

2. (Answer any 2 questions)

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(a) Amit purchased a computer for ₹44,000 and leased out it to Sumit for four years on leases basis, after the lease period, value of the computer was estimated to be ₹ 3,000; which he realized after selling it in the second hand market. Lease amount payable at the beginning of each year is ₹ 22,000; ₹13,640; ₹6,820 & ₹3,410. Depreciation was charged @ 40% p.a. You are required to pass the necessary journal entries in the books of Sumit. **[8]**

(b) (i) Best Wishes Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 3,300 lakhs, given below is the pattern of expected production and expected operating cash inflow.

Year	Production in bottles (In thousands)	Net operating cash flow (₹ in lakhs)
1	4,950	14,850
2	9,900	29,700
3	10,725	37,950
4	13,200	52,800
5	13,200	52,800
6	13,200	52,800
7	13,200	52,800
8	13,200	52,800
9	13,200	52,800
10	13,200	52,800

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method. **[6]**

(ii) State any four Indian Accounting Standards which make use of Fair Value. **[2]**

(c) (i) From the following information compute diluted earnings per share.

Net profit for the year 2014	₹28,80,000
Weighted average number of equity shares outstanding during year 2014	5,00,000 shares
Average fair value of one equity share during the year 2014	₹48
Weighted average number of shares under option during the year 2014	1,00,000 shares
Exercise price per share under option during the year 2014	₹36

[4]

(ii) State the disclosure requirement as per AS – 11. **[4]**

3. (Answer any 2 questions)

(a) (i) Emerald Ltd. agreed to absorb Ruby Ltd. on 31st March 2014, whose Balance Sheet stood as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital:	1,60,00,000	Fixed Assets	1,40,00,000

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1,60,000 shares of ₹ 100 each fully paid			
Reserve and Surplus:		Current Assets, Loans & Advances:	
General Reserve	20,00,000	Stock in Trade	20,00,000
Secured Loan	-	Sundry Creditors	40,00,000
Unsecured Loan	-		
Current Liabilities and Provisions:			
Sundry Creditors	20,00,000		
	2,00,00,000		2,00,00,000

The consideration was agreed to be paid as follows :

- i. A payment in cash of ₹ 50 per share in Ruby Ltd. and
- ii. The issue of shares of ₹ 100 each in Emerald Ltd., on the basis of 2 Equity Shares (valued at ₹ 150) and one 10% Cumulative Preference Share (valued at ₹ 100) for every five shares held in Ruby Ltd.

It was agreed that Emerald Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in Ruby Ltd. i.e., ₹ 650 for five shares of ₹ 500 paid.

The whole of the Share capital consists of shareholdings in exact multiple of five except the following holding:

Uma	232	
Sunil	152	
Ritam	144	
Vinit	56	
Other individuals	16	(sixteen members holding one share each)
	600	

Prepare a statement showing the purchase consideration receivable by above shareholders in shares and cash.

[10]

(ii) From the following particulars of Pintop 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	₹
Net Profit before 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 for Machinery during the year	25,000
Depreciation Allowable under Schedule XIV	2,60,000
Actual Expenditure incurred on Repairs during the year	15,000

[6]

(b) (i) OMR Limited recently made a public issue in respect of which the following information is available:

- No. of partly convertible debentures issued 4,00,000; face value and issue price ₹100 per debenture.

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- Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.
- Date of closure of subscription lists 1.5.2014, date of allotment 1.6.2014, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion ₹ 60 (Face Value ₹ 10).
- Underwriting Commission 2%.
- No. of debentures applied for 3,00,000.
- Interest payable on debentures half-yearly on 30th September and 31st March.
- Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2015 (including cash and bank entries). [8]

(ii) The following particulars relate to Ambar Ltd. for the year ended 31st March 2014 —

- A. Fully paid 8% Preference Shares of Face Value of ₹10,00,000 were redeemed at 3% premium. In this connection, 60,000 Equity Shares of ₹10 each were issued at a premium of ₹2 per share, the entire money being received with applications.
- B. Dividend was paid as follows -
- | | |
|---|-----------|
| On 8% Preference Shares | ₹40,000 |
| On Equity Shares for the year 20X1 - 2014 | ₹1,10,000 |
- C. Total Sales were ₹32,00,000 out of which cash sales were ₹11,50,000.
- D. Total Purchases were ₹ 8,00,000 including cash purchase of ₹60,000.
- E. Total Expenses were paid ₹12,40,000.
- F. Taxes paid including Dividend Tax of ₹ 22,500 were ₹3,30,000.
- G. Cash and Cash Equivalents as on 31st March, 2014 were ₹1,25,000.

Compute the Cash Flow from Operating Activity for the year ended 31st March, 2014 after taking into consideration the following also:

Particulars	On 31st March 2013 (₹)	On 31st March 2014 (₹)
Sundry Debtors	1,50,000	1,47,000
Sundry Creditors	78,000	83,000
Unpaid Expenses	63,000	55,000

[6]

(iii) State the impact of Negative Goodwill in case of amalgamation in the nature of purchase. [2]

(c) (i) AA Ltd. absorbs BB Ltd. and the liquidation expense is ₹20,000.

Give the journal entries in the books of if Transferor Company —

Case I: The expense is incurred by Transferor Company;

Case II: The expense is Incurred by Transferee Company;

Case III: The expense is Incurred by Transferor Company reimbursed by Transferee Company. [4]

(ii) Following is the Balance Sheet of Basudev Ltd. for the year ended 31st March, 2014 —

Liabilities	Amount	Assets	Amount
Equity Shares of ₹100 each fully paid up	40,00,000	Fixed Assets	38,00,000
Reserves and Surplus	8,00,000	Current Assets	22,00,000
Current Liabilities	12,00,000		

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	60,00,000		60,00,000
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Amrita Ltd. takes over all the assets and liabilities of Basudev Ltd. at their books value except a machinery of ₹16 lakhs taken over at ₹12 lakhs.

Amrita Ltd. issued requisite number of equity shares at par for the assets and liabilities taken over.

Compute the purchase consideration and determine whether the above should be treated as an amalgamation in the nature of Merger or in the nature of Purchase. **[4]**

(iii) Ambar Ltd. has eight segments A, B, C, D, E, F, G and H. The following information is available in relation to these segments. (₹ in lakhs)

Particulars	A	B	C	D	E	F	G	H	Total
Segment Revenue									
• External sales	Nil	510	30	20	30	100	40	70	800
• Inter-Segment Sales	200	120	60	10	Nil	Nil	10	Nil	400
Total Revenue	200	630	90	30	30	100	50	70	1200
Segment result – Profit (Loss)	10	(180)	30	(10)	16	(10)	10	14	(120)
Segment Assets	45	141	15	33	9	15	15	27	300

Identify which of the above constitute Reportable Segments, if you were informed that A, B, C and were the Reported Segments in the last financial year. **[8]**

4. (Answer any 2 questions)

- (a) (i)** State the areas of operation that are involved in an internal audit. **[5]**
(ii) List the disadvantages of Joint Audit. **[3]**
(iii) Differentiate between Physical Verification and Confirmation. **[4]**
(iv) Verify the revenue recognition process for a Movie Ticket. **[4]**
- (b) (i)** List the steps to Sales as a manufacturing unit. **[5]**
(ii) Discuss 'Expenditure Audit' in relation to the Government Audit. **[6]**
(iii) State the procedure for removal of statutory auditor before the expiry of his term as per Companies Act, 2013. **[5]**
- (c) (i)** Whether an Auditor opinion in a financial statement is persuasive or a conclusive in nature? **[2]**
(ii) Discuss the significance of audit working papers. **[6]**
(iii) X Ltd. is going for liquidation it has liabilities of ₹120 consisting of secured creditors of ₹30, Creditors of ₹20 and Unsecured Creditors of ₹70. Net Assets after payment of both secured and Preferential Creditors is ₹30.
 Liquidator is entitled to a remuneration of 2% on the on the payment made to unsecured creditors.
 Guide the Accountant on the procedure to estimate the remuneration of the liquidator. **[6]**
(iv) List the issues involved to verify the process of "Share Surrender" in case of Internal Reconstruction. **[2]**

