

Paper – 12: Company Accounts and Audit

PTP_Intermediate_Syllabus 2012_Jun2015_Set 2

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	Communicate the key features of
	Distinguish		Highlight the differences between	
	Explain		Make clear or intelligible/ state the meaning or purpose of	
	What you are expected to understand		Identify	Recognize, establish or select after consideration
			Illustrate	Use an example to describe or explain something
	APPLICATION		Apply	Put to practical use
		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	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) The carrying amount of an asset given on sale and leaseback that results in an operating lease is ₹10,000. The fair value and the selling price of the asset at inception of the lease is ₹9,000. Give the accounting treatment in the books.
- (b) The share capital of M Ltd. consists of 3,50,000 equity shares of ₹10 each, and 87,500 preference shares of ₹100 each, fully called up. Besides, its securities premium account shows a balance of ₹1,40,000 and general reserve of ₹24,50,000. The company decides to buy-back 1,05,000 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) Differentiate between Reporting Currency and Foreign Currency.
- (d) Journalize the following transaction:
Machinery worth ₹38 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) As per section 139 of Companies Act, 2013 an auditor shall furnish a certificate and consent — discuss.
- (j) What we understand by the term 'partial audit'?

PTP_Intermediate_Syllabus 2012_Jun2015_Set 2

2. (Answer any 2 questions)

- (a) (i)** S. S. Corporate Securities Ltd. is showing an intangible asset at ₹ 144 lakhs as on 01.04.2014 and that an item was acquired for ₹ 192 lakhs on 01.04.2011 and that the item was available for use from that date. It has been following the policy of amortisation of the intangible asset over a period of 12 years on straight line basis. As per AS 26 how will it affect the accounts? **[4]**
- (ii)** List the intended users of the Financial Statement. **[4]**
- (b) (i)** Write a note on Financial Lease as per AS – 19. **[6]**
- (ii)** Due to the contribution of Great Men Ltd to the Society, the State Government has given a product licence at a nominal consideration of ₹40 lakhs. The market price of the license is however ₹3 Cores. The Company incurred ₹4 lakhs as expenditure in registration and initial operation of the licence. At what price should the license be recorded? **[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 2014-2015 and cancellation made on 31st March 2015 —
- 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 2014-15. **[10]**
- (ii)** Following information relates to Utkal Ltd. State under which heads these items will appear in the Balance Sheet as per Schedule III ?
- 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]**

PTP_Intermediate_Syllabus 2012_Jun2015_Set 2

(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.
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
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PTP_Intermediate_Syllabus 2012_Jun2015_Set 2

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

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 30.06.2014 :

	(₹ in lakhs)
Net Profit	90,000
Dividend (including dividend tax) paid	25,605
Provision for Income-tax	18,000
Income tax paid during the year	12,744
Loss on sale of assets (net)	120
Book value of the assets sold	555
Depreciation charged to Profit & Loss Account	60,000
Amortisation of Capital grant	30
Profit on sale of Investments	300
Carrying amount of Investment sold	83,295
Interest income on investments	7,530
Interest expenses	30,000
Interest paid during the year	31,560
Increase in Working Capital (excluding Cash & Bank balance)	1,68,225
Purchase of fixed assets	43,680
Investment in joint venture	11,550
Expenditure on construction work in progress	1,04,220
Proceeds from calls in arrear	6
Receipt of grant for capital projects	36
Proceeds from long-term borrowings	77,940
Proceeds from short-term borrowings	61,725
Opening cash and Bank balance	15,009
Closing cash and Bank balance	38,952

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]**

PTP_Intermediate_Syllabus 2012_Jun2015_Set 2

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) Narrate the steps to be followed by the Branch Auditor regarding Branch Audit Report. **[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 8 of the Companies Act, 2013. **[9]**