Company Accounts & Audit

Full Marks: 100

Section A

(1) Answer the following (compulsory) [2x2=4]

(i) What do you mean by Integral & Non-integral foreign operation? Give one example of Integral & Non-integral foreign operation each.

(ii) Foreign currency creditors at the end of the financial year are USD 10 Lakhs. Sales were recorded at the exchange rate USD 1= ₹62. On the balance sheet date, the exchange rate is USD 1 = ₹64 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 - ₹65.00 to ₹66.50. At what value should the creditors be recorded in the balance sheet? What is the treatment of foreign exchange loss?

(2) Answer any two Questions [2x8=16]

(a) Tarun Ltd has taken an asset on lease from Barun Ltd for a period of 3 years. Annual Lease rental are ₹8 lakhs payable at the end of every year. The residual value guaranteed by Tarun is ₹3 lakhs whereas Barun expects the estimated salvage value to be ₹6 lakhs at the end of the lease term. If the fair value of the asset at the lease inception is ₹15 lakhs and the interest rate implicit in the lease is 18%, compute the Net Investment in the lease from the viewpoint of Barun Ltd and the annual finance income. **[8]**

(b) **(i)** Moon Ltd. has entered into a sale contract of ₹4 crores with Poonam Ltd. during 2012-13 financial year. The profit on this transaction is ₹60 lakhs. The delivery of goods to take place during the first month of 2013-14 financial year. In case of failure of Moon Ltd. to deliver within the schedule a compensation of ₹1.20 crore is to be paid to Poonam Ltd. Moon Ltd planned to manufacture the goods during the last month of the 2012-13 financial year. As on Balance Sheet date (31.3.13), the goods were not manufactured and it was unlikely that Moon Ltd. will be in a position to meet the contractual obligation.

Should Moon Ltd. provide for contingency as per AS- 29? **[4]**

(ii) Treatment of refund of Government grants. **[4]**

(c) **(i)** The fair value of plan assets of Akash Ltd. was ₹80,00,000 in respect of employee benefit pension plan as on 1st April, 2012. On 30th September, 2012 the plan paid out benefits of ₹10,00,000 and received inward contribution of ₹22,00,000. On 31st March 2013 the fair value of plan assets was ₹1,05,00,000. On 1st April, 2012 the company made the following estimates, based on its market studies and prevailing prices.

	%
Interest and dividend income (after tax) payable by fund	10.15
Realised gain on plan assets (after tax)	3.00
Fund administrative costs	(1.50)
Expected rate of return	11.65

Calculate the expected and actual return on plan assets as on 31st March, 2013, as per AS – 15. **[4]**

(ii) PQR. Ltd. supplied the following information:

You are required to compute the basic earnings per share – Accounting year 1.1.2012 – 31.12.2012.

(a) Net Profit for the year 2012 = ₹ 80,00,000; 2013 = ₹ 90,00,000

(b) No. of shares outstanding prior to right issue = 13,50,000 shares

(c) Right Issue

- One new share for each four outstanding i.e., 2,50,000 shares
- Right Issue Price ₹ 40
- Last date of exercising right – 31.03.2013

(d) Fair rate of one equity share prior to exercise of rights on 31.3.2013 – ₹ 75.

[4]

Section B

(3) Answer the following (compulsory) [4x2=8]

(i) Bright Engineering Ltd. granted 50,000 options on 1st August 2012 at ₹75 when the market price was ₹250. The vesting period is two years.

You are required to:

Calculate the amount to be amortized every year.

(ii) Explain the disclosure requirement under revised schedule VI of the following items:-

(a) Fixed Assets (Land & Building) held for sale

(b) Term Loan (secured) repayment within 12 months.

(iii) Who are the important users of the financial statements of an Enterprise?

(iv) Explain the disclosure requirement under revised schedule VI of the following items:-

(a) Equity Share Capital

(b) Preference Share Capital

(4) Answer any two Questions [2x16=32]

(a) The Balance Sheets of Sankar Ltd. and Ganesh Ltd. as on 31.03.13 were as follows:

Balance Sheet as on 31.03.13

(Amount in ₹)

Liabilities	Sankar Ltd.	Ganesh Ltd.	Assets	Sankar Ltd.	Ganesh Ltd.
Equity Share capital (`100)	16,00,000	6,00,000	Building	4,00,000	2,00,000
			Machinery	10,00,000	6,00,000
10% Preference Share capital (`100)	-	4,00,000	Furniture	2,00,000	1,20,000
			Investment: 600 shares of Ganesh Ltd.	1,20,000	—
General Reserve	6,00,000	2,00,000	Stock	3,00,000	3,80,000
Profit and Loss A/c	4,00,000	2,00,000	Debtors	7,00,000	5,00,000
Creditors	4,00,000	6,00,000	Cash and Bank	1,80,000	1,40,000

		Preliminary Expenses	1,00,000	60,000	
30,00,000	20,00,000		30,00,000	20,00,000	

Sankar Ltd. has taken over the entire undertaking of Ganesh Ltd. on 30.09.13, on which date, the position of Current assets except cash and bank balances and Current liabilities were as follows:

	Sankar Ltd (₹)	Ganesh Ltd (₹)
Stock	2,40,000	3,00,000
Debtors	7,60,000	5,00,000
Creditors	3,60,000	4,20,000

Profits earned for the half year ended on 30.09.13 after charging depreciation as 5% on building, 15% on machinery and 10% on furniture, are:

Sankar Ltd. ₹ 2,05,000

Ganesh Ltd. ₹ 1,08,000

On 30.08.13 both companies have declared 15% dividend for 2012-13.

Goodwill of Ganesh Ltd. has been valued at ₹1,00,000 and other Fixed assets at 10% above Sankar their book values on 31.03.13. Preference shares of Ganesh Ltd. are to be allotted 10%. Preference Shares of Sankar Ltd. and Equity shareholders of Ganesh Ltd. are to receive requisite number of equity shares of Sankar Ltd. valued at ₹150 per share on satisfaction of their claims.

Show the Balance Sheet as of 30.09.13 assuming absorption is through by that date. **[16]**

(b) (i) Cool & Care Ltd. planned to set up a unit for manufacture of bulk drugs. For the purpose of financing the, unit, the Board of Directors have issued 20,00,000 Equity Shares of ₹10 each. 25% of the issue was reserved for Promoters and the balance was offered to the public. P Ltd., Q Ltd. and R Ltd. have come forward to underwrite the public issue in the ratio of 3:2:1 and also agreed for Firm Underwriting of 50,000, 35,000, 15,000 Shares respectively. The Underwriting Commission was fixed at 5%. The amount payable on application was ₹ 2.50 per share. The details of subscriptions are:

Particulars	Marked Forms of A	Marked Forms of B	Marked Forms of C
No. of Shares	6,50,000	3,00,000	2,00,000

Unmarked Forms were received for 1,20,000 Shares. From the above, you are required to show the allocation of liability among underwriters with workings. Also, pass Journal Entries in the books of the Company for

a. Underwriters' net liability and the receipt or payment of cash to or from underwriters

b. Determining the liability towards the payment of commission to the Underwriters. **[8]**

(ii) X Ltd. has the following balances as on 1st April, 2012

	₹
Fixed Assets	16,40,000
Less; Depreciation	4,36,000
	12,04,000
Stocks and Debtors	7,25,000

Bank Balance	1,22,500
Creditors	2,24,000
Bills payable	1,76,000
Capital (Shares of ₹100 each)	7,50,000

The Company made the following estimates for financial year 2012-13:

(i) The company will pay a free of tax dividend of 20% the rate of tax being 30%.

(ii) The company will acquire fixed assets costing ₹3,20,000 after selling one machine for ₹ 45,000 costing ₹ 95,000 and on which depreciation provided amounted to ₹ 1,66,500.

(iii) Stocks and Debtors, Creditors and Bills payables at the end of financial year are expected to be ₹ 6,70,000, ₹ 1,88,000 and ₹ 1,52,800 respectively.

(iv) The profit would be ₹ 2,04,500 after depreciation of ₹ 2,14,000.

Prepare the projected cash flow statement and ascertain the bank balance of X Ltd. at the end of Financial year 2012-13.

[8]

(c) (i) The following is the Balance Sheet of "Smart" Ltd as on 31.12.2013.

Liabilities	₹	**Assets**	₹
Issued and Subscribed Capital:		Land and Buildings	8,50,000
25,000 15% Cum. Pref. Shares of ₹100 each fully paid	25,00,000	Machinery and Plant	23,75,000
12,500 Equity Shares of ₹100 each, ₹75 paid	9,37,500	Patents	3,00,000
32,500 Equity Shares of ₹100 each, ₹60 paid	19,50,000	Stock	9,02,500
18% Debentures secured by Floating Charge	15,00,000	Sundry Debtors	16,25,000
Interest outstanding on Debentures	1,80,000	Cash and Bank A/c	2,25,000
Creditors	9,00,250	Profit and Loss A/c	16,90,250
Total	**79,67,750**	**Total**	**79,67,750**

Preference Dividends were in arrears for 2 years and the Creditors included Preferential Creditors of ₹ 38,000.

The assets realized as follows:

(a) Land and Building ₹ 16,00,000;

(b) Machinery and Plant ₹ 18,00,000;

(c) Patents ₹ 2,25,000;

(d) Stock ₹ 7,50,000 and

(e) Sundry Debtors ₹ 12,50,000.

Expense of Liquidation amounted to ₹ 62,500. The Liquidator is entitled to a Commission of 2.5% on assets realized except Cash.

Assuming that the final payments including those on debentures were made on 30.06.2011, show the Liquidator's Final Statement of Account.

[8]

(ii) Green India Ltd. has five segments namely T, P, R, S & U. The total assets of the company are ₹22 crores, segment T has ₹ 4 crores., segment P has ₹6 crores., segment R has ₹3 crore, S has ₹5.5 crores, and Q has ₹3.5 crores, deferred tax assets included in the assets of each segments are T- ₹1.50 crores; P- ₹1.29 crores; R- ₹1.10 crores; S- ₹2.25 crores & Q- ₹1.35 crores. The accountant contended that all the four segments are reportable segments. Comments.

[4]

(iii) A Company is planning to raise funds by making rights issue of equity shares to finance its expansion. The existing equity share capital of the company is ₹ 1,00,00,000. The market value of its share is ₹ 65. The company offers to its shareholders the right to buy 2 shares at ₹ 18 each for every 5 shares held. You are required to calculate:

(i) Theoretical market price after rights issue;

(ii) The value of rights; and

(iii) Percentage increase in share capital. **[4]**

Section C

(5) Answer the following (compulsory) [4x2=8]

(i) What are the Methods of selection of audit sample?

(ii) What are the limitations of an Internal Control Systems of an Organisation.

(iii) Discuss the disadvantages of surprise checks in an Audit.

(iv) Discuss the advantages of Internal Control system of an Organisation.

(6) Answer any one Question [1x8=8]

(a) As an Internal Auditor of a Cement Manufacturing Company, draft an audit program for verification of purchase of raw materials.

(b) Discuss how Cost Audit is useful to Management, society, Shareholders and Government?

(7) Answer any two Questions [2x12=24]

(a) (i) The rate of Equity Dividend declared and paid by a Company are as follows:

Year: 2010 – 16%, Year: 2009 – 12%, and Year: 2008 – 12%

The Company has earned sufficient Profit after tax in 2011 and wishes to propose a dividend on Equity Share at 11% of the current profits. It also wishes to transfer more than 10% of Current Profits to its Reserves. The Company did not issue bonus shares during last few years.

The Company's PAT for the past year are: Year 2011- ₹25,00,000, Year 2009 - ₹22,00,000, Year 2008 - ₹21,00,000, and year 2007 – ₹30,00,000.

Can the company transfer a higher rate of profit to Reserves? Explain. **[8]**

(ii) Distinguish between Qualified Report and Adverse Report. **[4]**

(b) Answer the following [3x4=12]

(i) What types of Companies are specially exempted from application of CARO?

(ii) Mayank, a practicing Cost Accountant, is attending to the matters of Q Ltd., and for that purpose has to regularly attend to the Company from 10.00 A.M to 4.00 P.M. on all working days. He is paid ₹ 25,000 p.m. for the same. Q Ltd. intends to appoint Mayank as its Cost Auditor. Advice whether Mayank can accept the appointment.

(iii) State the advantages of Continuous Audit.

(c) Write short notes on the following: [3 x4=12]

(i) Environment Audit

(ii) Proprietary Audit

(ii) Energy Audit