Paper 12 : Company Accounts & Audit

Full Marks: 100 **Time : 3 hours**

Section A

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

(i) 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.

(ii) An asset does not meet the requirement of environment laws which have been recently enacted. The asset has to be destroyed by the law. The asset is carried in the Balance Sheet at the year end at ₹12,00,000. The estimated cost of destroying the asset is ₹1,50,000. How is the asset to be accounted for?

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

(a) In the context of relevant accounting Standard, give your comments on the following matters for the financial year ended on 31.3.2013.

(i) A company with a turnover of ₹350 crores and an annual advertising budget of ₹2 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹25 crores from the new project. The company had debited to its Profit & Loss account the total expenditure of ₹2 crore incurred on extensive special initial advertisement campaign for the new product.
Is the procedure adopted by the company correct? **[4]**

(ii) Modern Ltd. took a factory premises on lease on 01.04.2010 for ₹2,00,000 per month. The lease is operating lease. During March, 2011, Modern Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.13. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31,12,2013 should be provided in the accounts for the year ending 31.3.2011. Modern Ltd. seeks your advice. **[4]**

(b) (i) An enterprise operates a pension plan that provides a pension of 2% on final salary for each year of service. The benefit will be vested after 5 years of service. On 1.1.2009, the enterprise improves the pension to 2.5% of the final salary for each year of service starting from 2005. At the date of improvement the Present Value of additional benefits for service from 1.1.2005 to 1.1.2009 is as follows:

Employees with more than 5 years of service at 1.1.2009	₹200
Employees with less than 5 years of service	₹120

(Average period until vested = 3 years)
Suggest the accounting treatment. **[4]**

(ii) Himalayas Ltd. is showing an intangible Asset at ₹72 lakhs as on 01.04.13 and that item was required for ₹96 lakhs on 01.04.2009and that item was available for use from that date. Himalayas Ltd. has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comments on the accounting treatment of the above with reference to relevant accounting standard. **[4]**

(a) (i) How should a lessee account for installation, erection and commissioning costs incurred in connection with an asset taken of finance lease? **[4]**

(ii) Y Ltd. issued 6,00,000 shares of ₹10 each on April 1, 2012. ₹5 per share were called up on that day, which was paid by all shareholders. On October 1, 2012, the remaining ₹5 per share were called up, which was paid by all but one shareholder, who held 50,000 shares. His amount was unpaid even at March 31, 2013, the date of the financial statement. As per the Articles of the company, the shareholders have a right to dividend to the extent of their share in the paid-up capital. Calculate Basic EPS for the year ended March 31, 2013, if the net profit attributable to shareholders for the year was ₹12,00,000. **[4]**

Section B

(3) Answer the following (Compulsory) [4x2]

(i) Goodwill arising on acquision as per AS-14 is to be treated as per AS-26. Comments.

(ii) Calculate from the following information- Theoretical ex-right fair value

Right factor:
- 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

(iii) Explain the disclosure requirement under revised schedule VI of the following items:-
(a) Debit balance of Profit & Loss account
(b) Unsecured Bank loan

(iv) Write short notes on Creditors' Voluntary Wind-up.

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

(a) Balance Sheet of Dixit Ltd. as on 31.3.2013

Liabilities	**₹**	**Assets**	**₹**
Equity Share Capital (60,000 equity shares of 10 each)	6,00,000	Goodwill	80,000
		Land & Building	8,80,000
15% Pref. Share Capital	2,00,000	Patents	60,000
Capital Redemption Reserve	1,20,000	Motor car	1,00,000
Dividend Equalization fund	40,000	Investments	1,20,000
Insurance fund	1,60,000	Stock	3,00,000
Workmen compensation fund	1,20,000	Insurance policy	2,00,000
10% debenture	4,00,000	Debtors	1,80,000
Creditors	2,40,000	Cash	1,40,000
Outstanding wages	40,000	Discount on shares	20,000
Proposed dividend	60,000		
Provision for tax	1,00,000		
	20,80,000		**20,80,000**

Contingent liability ₹40,000. It was agreed by Shivam Ltd. to take over Dixit Ltd. as on 31.3.13.

a) Shivam Ltd. took over Dixit Ltd. and it was agreed to pay ₹2 in cash per share and issue 4 shares for every 6 held valued at ₹12 each.
b) Preference Shareholders are issued 10% new preference shares in such quantity- so as to maintain their dividend.
c) Patents are valued 25% lesser while investments are valued at 80%.
d) Insurance policy was taken over by Shivam Ltd. at its surrender value of ₹1,20,000.
e) Contingent liabilities was agreed to be taken over by Shivam Ltd. which is estimated to ₹ 28,000.
f) Liability against workman compensation fund is ₹40,000
g) Shareholders holding 2,400 shares dissented and it was agreed to pay them ₹13 in cash while 120 shares are fund fractional which was discharged @ ₹10.
h) Liquidation expenses amounting to ₹20,000.

Close the books of Dixit Ltd. Journalise in Shivam Ltd. and show new balance sheet of Shivam Ltd. **[16]**

(b) (i) TQM Ltd. group has three divisions T, Q, M. details of their turnover, results and net assets are given below:

	(₹ in lakhs)
Division T	
Sale to Q	3,050
Other sales (Home)	60
Export sales	4,090
	7,200
Division Q	
Sale to M	30
Export sales to Europe	200
	230
Division M	
Export sales to America	180

		Division		
	Head Office	T	Q	M
	(₹ in lakhs)	(₹ in lakhs)	(₹ in lakhs)	(₹ in lakhs)
Operating Profit or loss before tax		160	20	(8)
Re-allocated cost from Head Office		48	24	24
Interest cost		4	5	1
Fixed assets	50	200	40	120
Net current assets	48	120	40	90
Long-term liabilities	38	20	10	120

Prepare a segmental Report for publication in TQM Ltd. Group. **[8]**

(ii) From the following information prepare Cash flow statement:

Balance Sheet **(₹ in Amount)**

Liabilities	**31.3.12**	**31.3.13**	**Assets**	**31.3.12**	**31.3.13**
Share Capital	10,00,000	12,00,000	Goodwill	2,00,000	1,60,000
Debentures	6,00,000	4,00,000	Land	5,40,000	7,90,000
General Reserve	3,00,000	3,00,000	Machinery	7,20,000	9,00,000
Profit and loss A/c	2,40,000	3,20,000	Stock	3,20,000	2,50,000
Provision for Income tax	70,000	1,20,000	Debtors (Good)	3,00,000	2,40,000
Creditors	1,63,000	65,000	Preliminary Expenses	24,000	12,000

Bills payable	30,000	45,000	Cash	3,35,000	1,22,000
Provision for Doubtful debts	36,000	24,000			
	24,39,000	**24,74,000**		**24,39,000**	**24,74,000**

Additional Information:

a. During the year, a part of machine costing ₹17,500 (accumulated depreciation thereon being ₹2,500) was sold for ₹3,000.

b. Income tax of 2011-2012 paid in 2012-13 was ₹70,000.

c. Depreciation on machinery provided for 2012-13 was ₹56,000. **[8]**

(c) (i) In a winding up which commenced on 12th May of a certain calendar year, certain Creditors could not receive payments out of the realization of assets and out of contribution from 'A' List of Contributories. Following are the details of certain share transfers that took place prior to liquidation and the amount of creditors remaining unpaid.

Shareholders	No. of shares transferred	Date when ceased to be a member	Creditors remaining unpaid and outstanding on the date of ceasing to be a member (₹)
Abhay	2400	5th February	11,000
Bimal	1800	18th June	13,500
Chetan	1600	25th September	22,400
Damodar	1200	8th October	23,600
Ravi	700	7th December	22,000

All the shares were of ₹ 10 each on which ₹ 5 per share had been called and paid up. Ignoring Expenses of Liquidation, Remuneration to Liquidator etc., work out the amount to be realized from the above contributories. **[8]**

(ii) A company announced a share-based payment plan for its employees on 1.4.10, subject to a vesting period of 3 years. By the plan, the employees can (i) either claim difference between exercise price ₹150 per share and market price of those shares on vesting date in respect of 10,000 shares or (ii) can subscribe to 12,000 shares at exercise price ₹ 150 per share, subject to lock in period of 5 years. On 01.04.10, fair value of the option, without considering restrictions on transfers was ₹30 and that after considering restrictions on transfer was ₹27. The fair value estimates, without considering transfer restriction were ₹31.50, ₹32.70 and ₹34.00 respectively, at the end of 2010-11, 2011-12 & 2012-13.

Show important accounts in books of the company if employees opt for (i) cash settlement (ii) equity settlement. **[8]**

Section c

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

(i) Difference between Statutory Audit and Government Audit.

(ii) Write short notes on signing of the audit Report.

(iii) Difference between Operational Audit and Management Audit.

(iv) Write short notes on Qualification of Company auditor under section 226(1) &(2).

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

(i) What are the essential features of a good Internal Audit Report?
(ii) Bring out the reporting responsibilities of an Auditor under CARO,
(a) in relation to maintenance of Cost Records,
(b) In relation to Internal Audit.

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

(a) (i) Outline the areas of review under the Internal Audit function. **[8]**
(ii) Write short notes on the Appointment of auditors of Government Company. **[4]**

(b) (i) How to vouch the following items in case of audit of a Manufacturing Company-
(a) Petty cash
(b) Salaries and wages **[8]**

(ii) Describe the Auditor's responsibilities regarding Disqualification of Directors. **[4]**

(c) Write short notes on the following **[3x4]**

(i) Social Audit

(ii) Government Audit

(iii) Management Audit