Paper 12 – Company Accounts & Audit

Whenever necessary suitable assumptions may be made and disclosed by way of note.

Working Notes should form part of the answers

Section A

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

(i) A hydro-electricity generation company holds non-inter changeable machine spares which are not capitalised to the plant and machinery and carried as inventories. Average holding period of such inventories is around 2 years. It has normal collection period of trade receivables 2 months. Should the company take 2 years 2 months as its operating cycle? **[2]**

(ii) An entity has granted mobilisation advance to the contractors amounting to ₹20 lacs. How should the entity classify this advance as current and non-current? **[2]**

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

(a) X Ltd. received a loan from government amounting to ₹20 lacs at a subsidised rate of 4% on 1.4.2009 to be repaid over 5 years on annual equated instalment basis. The benchmark yield for the loan is 10%.

(i) How is the company making payment to the loan?
(ii) What is the fair value of loan as on 1.4.2009?
(iii) Is there any government grant?
(iv) How shall the company account for the loan and government grant component, if any?
(v) Show the loan accounting schedule and recognition of grant as income. **[8]**

(b)(i) Samik Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. In this, if the benefits re determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Assuming the following:

a) Immediately before the curtailment, based on current actuarial assumption, the gross obligation was estimated at ₹2,000
b) The fair value of plan assets on the date was estimated at ₹1,700

c) The unamortized past service cost was ₹60
d) Curtailment reduces the obligation by ₹200, which is 10% of the gross obligation.

Samik Ltd. estimates the share of unamortized service cost that relates to the part of the obligation that is eliminated at 10% of ₹60 or at ₹6. Calculate the gain form curtailment. **[4]**

(ii) M 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, M Ltd relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2013. 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. M Ltd seeks your advice. **[4]**

(c)(i) X Ltd. sold its plant to Y Ltd. (a lease financer). The written down value of the plant in X Ltd.'s book is ₹100 million and selling price is ₹120 million. The plant is taken back on lease.

What are the accounting issues involved? **[4]**

(ii) Can an enterprise capitalise advertisement for brand building? Is it possible to capitalise advertisement costs in the form of sponsorship of an event which is material? **[4]**

Section B

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

(i) A company presents supplementary consolidated financial statements in the same annual report along with the separate financial statements. Should the company present segment information for the separate financial statements as well as consolidated a financial statements? **[2]**

(ii) A software firm develops customised software and therefore development time varies depending upon the nature of individual work. It bills customers when milestone is achieved as per the contract. Customers on an average pay within 60 days of billing.

Should it take into account work-in-progress time while computing operating cycle? **[2]**

(iii) An entity has suffered a loss on stand-alone financial futures. The futures were purchased for ₹ 5,40,000 and its mark to market value as on the reporting date is ₹ 4,40,000.

How should the entity classify its obligation under futures? **[2]**

(iv) A company purchases inventory for US$ 10,000 when spot US$ 1 = 46.20 and settled the creditors when spot US$ 1= 45.80. How should the operating cash flow be calculated? **[2]**

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

(a) The Authorised Capital of Jagadguru Ltd is ₹5,00,000 consisting of 2,000 6% Preference Shares of ₹100 each and 30,000 Equity Shares of ₹10 each. The following was the Trial Balance of the Company as on 31st March, 2014: (₹)

Particulars	Dr.	Cr.
Investment in Shares at Cost	50,000	
Purchases	5,90,500	
Selling Expenses	79,100	
Stock as at the beginning of the year	1,45,200	
Salaries and Wages	52,000	
Cash on Hand	12,000	
Interim Preference Dividend for the half year to 30th September	6,000	
Discount on Issue of Debentures	2,000	
Preliminary Expenses	1,000	
Bills Receivable	41,500	
Interest on Bank Overdraft	7,800	
Interest on Debentures upto 30th September (1st Half Year)	3,750	
Sundry Debtors and Creditors	50,100	87,850
Freehold Property at Cost	3,50,000	
Furniture at Cost Less Depreciation of₹ 15,000	35,000	
6% Preference Share Capital		2,00,000
Equity Share Capital fully paid up		2,00,000
5% Mortgage Debentures secured on Freehold Properties		1,50,000
Income Tax paid in advance for the current year	10,000	
Dividends		4,250
Profit and Loss A/c (Opening Balance)		28,500
Sales (Net)		7,70,350
Total	15,90,950	15,90,950

You are required to prepare the Profit and Loss A/c for the year ended 31st March and the Balance Sheet as on that date after taking into account the following -

1. Closing Stock was valued at ₹ 1,42,500.
2. Purchases include ₹ 5,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include ₹ 2000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".
4. Bills Receivable include ₹ 1,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of ₹ 2,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Interest on Debentures for the half year ending on 31st March was due on that date.
8. Provide Provision for taxation ₹ 4,000.
9. Technical Knowhow Fees is to be written off over a period of 10 years. Entire Preliminary Expenses to be written off.
10. Salaries and Wages include ₹ 10,000 being Director's Remuneration.
11. Sundry Debtors include ₹ 6,000 Debts due for more than six months.

Keeping in mind the requirements of Schedule VI of the Companies Act, 1956, draw up the P & L A/c and Balance Sheet of the Company as close thereto as possible. Previous Year Figures can be ignored. **[16]**

(b)(i) Yama Limited made a Public Issue in respect of which the following information is available -

I. Number of Partly Convertible Debentures issued = 4,00,000, Face Value and Issue Price ₹ 100 per Debenture.
II. Convertible Portion per Debenture = 60%, Date of Conversion = On expiry of 6 months from the date of closing of issue, Value of Equity Share for the purpose of conversion ₹ 60 (Face Value ₹ 10)
III. Date of Closure of Subscription Lists = 1st May, Date of Allotment = 1st June, Rate of Interest on Debentures = 15% payable from the date of allotment.
IV. Number of Debentures applied for = 3,00,000, Underwriting Commission = 2%
V. 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 relevant year ended 31st March, (including Cash and Bank entries). **[8]**

(ii) The following are the changes in the account balances taken from the Balance Sheets of Shree Ganesh Ltd as at the beginning and end of the year -

Changes in ₹ in	Debit (₹)	Credit (₹)
Equity Share Capital 30,000 Shares of ₹10 each issued and fully paid		0
Capital Reserve		49,200
8% Debentures		50,000
Debenture Discount	1,000	
Freehold Property at Cost / Revaluation	43,000	
Plant and Machinery at Cost	60,000	
Depreciation on Plant and Machinery		14,400
Debtors	50,000	
Stock and Work-in-Progress	38,500	
Creditors		11,800
Net Profit for the year		76,500
Dividend Paid in respect of earlier year	36,000	
Provision for Doubtful Debts		3,300
Trade Investments at Cost	47,000	
Bank		70,300
Total	2,75,500	2,75,500

You are informed that,

- Capital Reserve as at the end of the year represented realised profits on sale of one Freehold Property together with surplus arising on the revaluation of balance of Freehold Properties.
- During the year, Plant costing ₹18,000 against which Depreciation Provision of ₹13,500 was lying, was sold for ₹7,000.
- During the middle of the year, ₹50,000 Debentures were issued for cash at a discount of ₹ 1,000.
- The Net Profit for the year was after crediting the Profit on sale of Plant and charging Debenture Interest.

Prepare a Cash Flow Statement which will explain why Bank Borrowing has increased by ₹70,300 during the year end. Ignore taxation. **[8]**

(c) The summarized Balance Sheet of Manoj Limited as at 31st March, 2013 is given below -

Liabilities	₹	Assets	₹
2,00,000 Equity Shares of ₹ 10 each, ₹ 5 paid	10,00,000	Fixed Assets	11,40,000
6,000 7% Preference Shares of ₹ 100 each	6,00,000	Patents and Copyrights	80,000
9% Debentures	6,00,000	Investments at Cost (Mkt Value ₹ 55,000)	65,000
Interest accrued on Debentures	1,08,000	Stock	4,00,000
Bank Overdraft	1,50,000	Debtors	4,39,000
Interest accrued on Bank Overdraft	15,000	Bank	10,000
Current Liabilities: Creditors	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 -

1. Preference Shareholders to give up 30% of their claims, including Dividends, and desire to be paid off.
2. Debentureholders give up their claims to interest in consideration of their interest being enhanced to 15%
3. Bank agrees to give up 50% of its interest outstanding in consideration of its being paid off at once.
4. Creditors would like to grant a discount of 5% if they are paid immediately.
5. Balance of Profit & Loss Account, Patents and Copyrights, and Debtors of ₹30,000 to be written off.
6. Fixed Assets to be written down by ₹34,000 and Investments are to reflect their Market Value.
7. To the extent not specifically stated, Equity Shareholders suffer on reduction of their rights.
8. Cost of Reconstruction is ₹7,550.

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 and prepare the Balance Sheet after reconstruction. **[16]**

Section C

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

(i) Outline the meaning of non-compliance under SA-250. **[2]**

(ii) Write a short note on Floating Assets. **[2]**

(iii) Distinguish between Prepaid Expenses and Expenses relating to previous year. **[2]**

(iv) The AOA of ABC Ltd do not authorize the Company to buy back its own Shares. However, a Special Resolution has been passed in General Meeting of the Company authorizing the buy-back. The Directors of the Company are of the opinion that even without authority in the AOA, the buy-back is possible due to Special Resolution passed in the General Meeting authorizing the buy-back. Comment. **[2]**

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

(i) Define the term 'material' and explain why the concept of materiality is important to auditors. **[8]**

(ii)(a) X, a Director of KP Private Ltd is also a Director of another Company, viz. GP Private Ltd, which has not filed the annual accounts and annual return for last three years. X is of the opinion that he is not disqualified u/s 274(1)(g), and the Auditor should not mention disqualification remark in his Audit Report. Comment. **[4]**

(b) Outline the Internal Control aspects in relation to Fixed Assets. **[4]**

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

(a) Mention the special points-to be considered in the audit of Consignment Transactions in the books of the Consignor. **[12]**

(b)(i) Why is knowledge of business important? **[6]**

(ii) Explain the matters that do and that do not affect the auditor's opinion. **[6]**

(c) (i) Write short notes on Independence of Internal Auditor. **[4]**

(ii) Lehar Ltd installed a new Water Treatment Plant at its factory on 1.10.2008. The Company estimated that the new plant will become obsolete after 4 years only and hence charged depreciation at a rate higher than that envisaged in Schedule XIV of the Companies Act. During the year 2008-09, the Company therefore, written off 1/4th of the cost. Comment on the above. **[4]**

(iii) How will you disclose Contingent Liability in the Balance Sheet of a Company? **[4]**