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) What do you mean by possible obligation under AS - 29? **[2]**

(ii) Explain the disclosure requirements under AS 11. **[2]**

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

(a) ABC Co. Ltd. supplied the following information. You are required to compute the basic earning per share:

(Accounting year 1-4-2009 - 31-3-2010)

Net Profit	: Year 2009-10: ₹ 20,00,000
	: Year 2010-11: ₹ 30,00,000
No. of shares outstanding prior to right Issue	: 10,00,000 shares.
Right Issue	: One new share for each four outstanding ie., 2,50,000 shares.
	Right Issue price - ₹ 20
	Last date of exercise rights - 30-6-2010

Fair rate of one Equity share immediately prior to exercise right on 30-6-2010: ₹ 25. **[8]**

(b) X Ltd has got the license to manufacture particular medicines for 10 years at a licence fee of ₹500 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	300	900
2	600	1800
3	650	2300
4	800	3200
5	800	3200
6	800	3200
7	800	3200
8	800	3200
9	800	3200
10	800	3200

Net operating cash flow has increased from third year because of better inventory management and handling method. Suggest the amortization method. **[8]**

(c)(i) What are the disclosures requirement relating to Contingent liabilities as per AS 29? **[4]**

(ii) Tip & Top Limited has set up its business in a designated backward area, which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of ₹ 100 crore in capital assets, received ₹ 20 crore from the Government in January 2010 (accounting period being 2009-2010). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2010. Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not. **[4]**

Section B

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

(i) Write short notes on reporting Cash Flows from Extra-ordinary items. **[2]**

(ii) What is Negative Goodwill in case of amalgamation in the nature of purchase? **[2]**

(iii) Differentiate between Amalgamation and Absorption. **[2]**

(iv) Explain the disclosure requirement of debit balance of Profit & Loss A/c. **[2]**

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

(a) X Ltd and Y Ltd had the following Balance Sheets as on 31st March, 2013 - (in ₹)

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Share Capital of ₹ 100 each	50,00,000	-	Fixed Assets	80,00,000	1,68,00,000
Share Capital of ₹ 10 each	-	80,00,000	Current Assets	69,00,000	1,60,00,000
Capital Reserve	10,00,000	-	Investments	20,00,000	-
General Reserve	36,00,000	1,00,00,000	Goodwill	2,00,000	-
Secured Loans	-	40,00,000			
Unsecured Loans	42,00,000	-			
Sundry Creditors	22,00,000	46,00,000			
Provision for Taxation	11,00,000	52,00,000			
Proposed Dividend	-	10,00,000			
Total	1,71,00,00	3,28,00,000	Total	1,71,00,000	3,28,00,000

X Ltd is amalgamated with Y Limited on the above date. For the purpose of amalgamation, the Goodwill of X Ltd is considered valueless. There are also arrears of depreciation of X Ltd amounting to ₹ 4,00,000.

The Shareholders in X Ltd are allotted, in full satisfaction of their claims, Shares in Y Limited in the same proportion as the respective Intrinsic Values of the Shares of the two Companies bear to one another. Pass Journal Entries in the books of both the Companies, to give effect to the above. **[16]**

(b)(i) Awada Limited issued 10 % Debentures at par for ₹ 16 Lakhs on 01.01.2011. Interest was payable half yearly on 30th June and 31st December every year. Under the terms of the Trust Deed, the Debentures are redeemable at par (three years after issue) by the Company purchasing them in the Open Market and cancelling, them with a minimum redemption of ₹ 1,60,000 every year.
In case, there is a shortfall in redemption by the Company by Open Market Operations, the shortfall would be made good by the Company by payment on the last day of the accounting year to the Trustees, who would then draw lots and redeem the balance Debentures.

The Company purchased its Own Debentures for cancellation as under: -

- 30.09.2011 ₹ 2,00,000 at ₹ 98 cum-interest.
- 31.05.2012 ₹ 1,20,000 at ₹ 95 ex-interest.
- 31.07.2013 ₹ 1,80,000 at ₹ 96 cum-interest.

The Company carried out its obligations under the Trust Deed. Prepare the following Ledger Accounts in the books of the Company, for Calendar Years 2011, 2012 and 2013 - (a) Debentures A/c, (b) Debenture Redemption A/c, and (c) Debenture Interest A/c. Ignore Taxation. **[8]**

(ii) Excess Ltd grants 100 Stock Options to each of its 1,000 Employees on 01.04.2009 for ₹ 20, depending upon the Employees at the time of vesting of options. The Market Price of the Share is ₹ 50. These Options will vest at the end of the Year 1 if the earning of Excess Ltd increases 16% or it will vest at the end of the third year if the average earning of 3 years will increase by 10%. 5,000 Unvested Options lapsed on 31.03.2010. 4,000 Unvested Options lapsed on 31.03.2011 and finally 3,500 Unvested Options lapsed on 31.03.2012.

The earning in % of Excess Ltd are - for the Year ended (a) 31.03.2010 -14%, (b) 31.03.2011 -14%, (c) 31.03.2012 - 7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal Entries for the above. **[8]**

(c) On 1st April, 2013, Surya Ltd was incorporated with an Authorised Capital of ₹ 800 Crores. It issued its Equity Capital of ₹ 50 Crores which was paid for in full. On that day, it purchased the running business of Mitra Ltd for ₹ 200 Crores, and allotted at par Equity Capital of ₹ 200 Crores in discharge of the consideration.
The Net Assets taken over from Mitra Ltd were valued as follows: (a) Fixed Assets - ₹ 150 Crores. (b) Inventory - ₹ 10 Crores, (c) Customers Dues - ₹ 70 Crores, and (d) Creditors - ₹ 30 Crores.
Mitra Ltd carried on business by adopting 1st April, 2013 to 31st March, 2014 as the accounting year, and the following information is furnished to you:
(i) Summary of Cash / Bank Transactions (for year ended 31st March, 2014)

Receipts	₹ Crores	Payments	₹ Crores

Equity Capital raised:		Payments to Suppliers	2,000
- Promoters (as shown above)	50	Payments to Employees	700
- Others	250	Payments to Expenses	500
Collections from Customers	4,000	Investments in Upkar Ltd	100
Sale Proceeds of Fixed Assets (Cost₹ 18 Crores)	20	Payments to Suppliers of Fixed Assets:	
		- Instalment due	600
		- Interest	50
		Tax Payment	270
		Dividend	50
		Closing Cash / Bank Balance	50
Total	4,320	Total	4,320

(ii) On 31st March, 2014 (i.e. at the end of the financial year), Surya Ltd's Assets and Liabilities were:

Particulars	₹ Crores
Inventory at Cost	15
Customers' Dues	400
Prepaid Expenses	10
Advances to Suppliers	40
Amounts due to Suppliers of Goods	260
Amounts due to Suppliers of Fixed Assets	750
Outstanding Expenses	30

(iii) Depreciation for the relevant accounting year were as under - (1) Under the Companies Act, 1956 - ₹ 180 Crores, (2) Under the Income Tax Act, 1961 - ₹ 200 Crores

(iv) Provide for Income Tax at 30% of "Total Income". There are no disallowables for the purpose of determining Total Income under Income Tax Act.

From the above data, Surya Ltd asks you to prepare - (1) Revenue Statement for the year ended 31st October, and (2) Balance Sheet as on that date. (Ignore Surcharge) **[16]**

Section C

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

(i) Explain the concept of Continuous Audit. **[2]**

(ii) How do you verify "Goods on Approval"? **[2]**

(iii) What do you understand by Piecemeal Opinion? **[2]**

(iv) Bharat is the Statutory Auditor of Kapil Ltd. In accordance with the terms of appointment, he recovers his fees on a progressive basis, as and when the work is done, without waiting for completion of the whole job. Will the question of indebtedness u/s. 226(3) arise at any stage? **[2]**

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

(a) What are the scope and objectives of Internal Audit? **[8]**

(b)(i) What are the procedures to be followed by the auditor of the company to verify the contingent liabilities ? **[4]**

(b)(ii) What are the methods of statistical sampling? **[4]**

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

(a) What are the principles of an effective internal check system? **[12]**

(b)(i) What are the advantages of an Audit Programme ? **[6]**

(ii) What are the factors to be considered for incorporating quality control in audit work? **[6]**

(c)(i) On what Companies the Companies (Auditor's Report) Order, 2003 is applicable and what Companies are not covered by it? **[4]**

(ii) Assets purchased under Hire-Purchase System were reflected at their full value and the outstanding instalments payable have been included under Sundry Creditors. How will you deal with the above situation? **[4]**

(iii) Outline the scope of Auditors' Duties vis-a-vis Inventories. **[4]**