INTERMEDIATE EXAMINATION
GROUP II
(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2017

Paper-12: COMPANY ACCOUNTS AND AUDIT

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Where considered necessary, suitable assumptions may be made and
Clearly indicated in the answer.

Answer all bits of a question at one place.
Open a new page for answer to a new questions.

SECTION – A

Answer *all* the following questions.

1. Answer the following questions: **2×5 =10**

(a) ANJASHAL Ltd. purchased Fixed Assets costing ₹480 lakh on 01.04.2016 and the same was fully financed by foreign currency loan (US Dollars) payable in three annual equal installments. Exchange rates were 1 US Dollar = ₹64.00 and ₹65.10 as on 01.04.2016 and 31.03.2017 respectively. First installment was paid on 31.03.2017.

What will be Loss / Gain for the financial year 2016-17 as per AS-11?

(b) ABICAN Ltd. has three segments namely A, B and C. The total assets of the Company are:

Segment A =	**₹ 1.0 Crore**
Segment B =	**₹3.5 Crore**
Segment C =	**₹6.0 Crore**
	₹10.5 Crore

Find out which are the reportable segments as per AS-17.

(c) What are the components of Financial Statement?

(d) ANISHUA Ltd. provides the following information regarding Defined Benefit Pension Plan for the year 2016 – 17.

Particulars	Amount (₹)
Fair market value of Plan Assets as on 01.04.2016	8,00,000
Fair market value of Plan Assets as on 31.03.2017	11,40,000
Employer Contribution	2,80,000
Benefit payment to retirees	2,00,000

Calculate the Actual Return on Plan Assets for the year 2016-17 as per AS-15.

(e) Give any two points of distinction between Reserve Capital and Capital Reserve.

Answer:

(a) As per AS – 11 all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction.
Foreign Currency loan = ₹480 lakhs/₹64 = 7.5 lakhs US Dollars.
Exchange difference as on 31.03.2017 = 7.5 lakhs US Dollars × (65.10 – 64.00) = 8.25 lakhs
It is to be added to the carrying amount of the Fixed Asset with corresponding credit to outstanding loan.

(b) According to AS-17 "Segment Reporting", total assets of All segment is (1+ 3.5 + 6) = ₹10.5 Crore
Segment A holds assets of ₹1 Crore is 9.52% of Total Assets
Segment B holds assets of ₹3.5 Crore is 33.33% of Total Assets
Segment C holds assets of ₹6 Crore is 57.15% of Total Assets
Thus only B and C hold more than 10% of Total Assets.
Hence only B and C are the Reportable Segments.

(c) Financial statement comprises of Income statement, Balance sheet, statement of changes of Financial position like cash flow statement and Notes to Accounts and Accounting Policies.

(d) The actual return on Plan Assets for the year 2016 – 2017 is computed as follows:

Particulars	Amount (₹)	Amount (₹)
Fair market value of Plan Assets as on 31.03.2017		11,40,000
Less: Fair market value of Plan Assets as on 01.04.2016		(8,00,000)
Change in Plan Assets		3,40,000
Adjusted for Employer contribution Less: Benefit payment to retirees	2,80,000 2,00,000	(80,000)
Actual return on Plan Assets		2,60,000

Reserve Capital	Capital Reserve
Reserve Capital refer to that portion of uncalled share capital which shall not be capable of being called up except in the event and for the purposes of the company being wound up (Sec. 65).	It refers to those amounts which are not regarded as tree for distribution by way of divided through Profit and Loss Account.
It is not mandatory to create Reserve Capital.	It is mandatory to create Capital Reserve in case of profit on forfeited shares.
It is not disclosed in the company's Balance Sheet.	It is required to be disclosed as the 1st item under the head 'Reserves and Surplus' on the liabilities side of the Balance Sheet.

2. Match the following items in Column "A" with items shown in Column "B" **1×5=5**

Column "A"	Column "B"
1. Earning per Share	**A. AS-19**
2. Accrual	**B. AS-29**
3. Accounting for leases	**C. AS-20**

4. Reliability	**D. Fundamental Accounting Assumptions**
5. Recognition of principles of contingent liabilities	**E. Free from material error and biases**

Answer :

Column "A"	Column "B"
1. Earnings per Share	C. AS-20
2. Accrual	D. Fundamental Accounting Assumptions
3. Accounting for leases	A. AS-19
4. Reliability	E. Free from material error and biases
5. Recognition of principles of contingent liabilities	B. AS-29

3. Answer *any two* questions: 5×2=10

(a) What is meant by Audit Programme?

(b) What is meant by Internal Control and Internal Check?

(c) State the basic features of continuous audit, (any five)

(d) Explain the meaning of the term "Subsequent events" as used in the SA 560 (Revised).

(e) What is meant by Auditing in depth?

Answer:

(a)

1. An Audit Programme is a detailed plan of applying the audit procedure in the given circumstances with instructions for the appropriate techniques to be adopted for accomplishing the audit objectives.
2. It is framed keeping in view the nature, size and composition of the business, dependability of the internal control and the given scope of work.
3. It provides sufficient details to serve as a set of instructions to the audit team and also helps to control the proper execution of the work.
4. On the basis of experience while carrying out the audit work, the programme may be altered to take care of situations which were left out originally, but found relevant for the particular audit situation. Similarly, if any work originally provided for proves beyond doubt to be unnecessary or irrelevant, that may be dropped.
5. There should be periodic review of the audit programme to assess whether the same continues to be adequate for obtaining requisite knowledge and evidence about the transaction,

(b) Internal Control is the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of Internal Control.

Internal check has been defined by the Institute of Chartered Accountants of England and Wales as the "checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another the object being the prevention or early detection of errors or fraud".

(c) Features of Continuous Audit:

- It is a process conducted throughout the year.
- It is conducted at regular or irregular intervals.
- It focuses on testing 100% of transactions.
- Technology is important to enabling it.
- It provides advance notice about errors and irregularities detected.
- Surprise visits by the auditor are involved.

(d) SA 560 on "Subsequent Events", defines the term "subsequent events" as events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.,
"Subsequent Events" also refer to significant events which occurred up to the date of report of the auditor of that component.
Thus, subsequent events are those events which occur after the date of the balance sheet till the audit report is signed by the auditor.

(e) Auditing in depth means the tracing of a transactions through its various stages from origin to completion, examining the supporting records at each stage and ascertaining whether all the requirements laid down in the system of internal check have been compiled with.

SECTION – B

Answer *any three* questions from Q no 4,5,6 and 7. **15×3=45**

4. (a) The following is the Balance Sheet of COWIJ limited as on 31st March 2017:

Liabilities	₹	Assets	₹
50,000 Equity Shares of ₹10 each, ₹8 per share called up and paid up	4,00,000	Fixed Assets	6,00,000
5,000, 13% Redeemable Preference Shares of ₹100 each	5,00,000	Investments [Face Value ₹1,25,000]	2,00,000
Securities Premium	98,000	Inventories	2,00,000
General Reserve	90,000	Trade Receivables	2,00,000
Profit & Loss A/c	1,12,000	Cash at Bank	3,00,000
Trade Payables	3,00,000		
	15,00,000		15,00,000

The Company resolved:

(i) To convert the partly paid-up equity shares into fully paid-up on 1st April, 2017 without requiring the shareholders to pay for the same.

(ii) To redeem the preference shares on 30th April at a premium of 7 ½ % and for this purpose to issue 3,000 12% preference shares of ₹100 each at a premium of 10% payable in full on application.

The resolutions were carried into effect. For the purpose of the above redemption, on 29th April, the company sold its fixed assets having book value of ₹ 3,00,000 for ₹3,82,500 and all the investments @ 208%. On 31st May, all payments were made on redemption except to holders of 200 shares who could not be traced.
On 30th June, the Directors issued fully paid bonus shares to the then shareholders at the rate of 3 for 5 held at a premium of 5%.
Required: Pass necessary Journal Entries in the books of the company to record the above transactions. 10

(b) What are the disclosure requirements of reportable segment as per AS-17? 5

Answer : (a)

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
01.04.17	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Being the final call of ₹ 2 per share due on 50,000 shares as per Board's Resolution dated...)		1,00,000	 1,00,000
01.04.17	General Reserve A/c Dr. Profit & Loss A/c Dr. To Bonus to shareholders A/c (Being the bonus declared as per shareholders resolution date….)		90,000 10,000	 1,00,000
01.04.17	Bonus to Shareholders A/c Dr. To Equity Share Final Call A/c (Being the utilisation of bonus payable towards payment of final call)		1,00,000	 1,00,000
29.04.17	Bank A/c Dr. To Fixed Assets A/c To Profit & Loss A/c (Being the sale of fixed assets costing ₹3,00,000 for the purpose of redemption of shares at a profit of ₹82,500)		3,82,500	 3,00,000 82,500
29.04.17	Bank A/c Dr. To Investments A/c To Profit & Loss A/c (Being the investments sold for the purpose of redemption of shares at a profit of ₹ 60,000)		2,60,000	 2,00,000 60,000
30.04.17	Bank A/c Dr. To Pref. Share Application & Allotment A/c (Being the receipt of application money)		3,30,000	 3,30,000
30.04.17	Pref. Share Application & Allotment A/c Dr.		3,30,000	

	To 12% Preference Share Capital A/c To Securities Premium A/c (Being the amount received on issue of 3,000 12% preference shares of ₹ 100 each at a premium of 10% for the purpose of redemption of shares as per Board's Resolution dated...)			3,00,000 30,000
	Securities Premium A/c Dr. To Premium on Redemption of Preference Shares A/c (Being the premium on redemption of share @7½% provided out of Share Premium Account)		37,500	37,500
30.04.2017	Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Being the amount transferred out of Profit & Loss Account to Capita] Redemption Reserve Account of an amount equal to nominal value of preference shares redeemed otherwise than out of the proceeds of fresh shares issued as required under Companies Act)		2,00,000	2,00,000
30.04.17	13% Redeemable Pref. Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Red. Preference Shareholders' A/c (Being the amount payable on redemption including premium transferred to Red. Preference Shareholders Account)		5,00,000 37,500	5,37,500
31.05.2017	Red. Preference Shareholders' A/c Dr. To Bank A/c (Being the amount due on redemption paid in full except to holders of 200 shares)		5,16,000	5,16,000
30.06.2017	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. Profit & Loss A/c Dr. To Bonus Payable A/c (Being the bonus declared as per shareholders' Resolution dated... for issuing fully paid shares)		2,00,000 90,500 24,500	3,15,000
30.06.17	Bonus Payable A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being the issue of 30,000 fully paid shares of ₹ 10 each as bonus shares in the ratio of 3 for 5 as per Board's Resolution dated...)		3,15,000	3,00,000 15,000

Answer:

(b) An enterprise should disclose the following for each reportable segment:

(1) segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;

(2) segment result;

(3) total carrying amount of segment assets;

(4) total amount of segment liabilities;

(5) total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);

(6) total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and

(7) total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets, that were included in segment expense and, therefore, deducted in measuring segment result.

5. (a) The summarized Balance Sheet of SRISHTI Ltd. As on 31st March, 2017 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Shares (₹10)	**30,00,000**	**Goodwill**	**5,00,000**
Export Profit Reserves	**8,50,000**	**Tangible Fixed Assets**	**30,00,000**
General Reserves	**50,000**	**Inventories**	**10,40,000**
Profit and Loss Account	**5,50,000**	**Trade Receivables**	**1,80,000**
9% Debentures	**5,00,000**	**Cash and Bank**	**2,80,000**
Trade Payables	**1,00,000**	**Preliminary Expenses**	**50,000**
	50,50,000		**50,50,000**

On 01-04-2017, ANU Ltd. agreed to absorb the business of SRISHTI Ltd. On the following terms:

(i) To issue 4,50,000 Equity Shares of ₹ 10 each @ 15 per share.

(ii) To make Cash payment equivalent to ₹2.50 for every share in SRISHTI Ltd.

(iii) To issue such an amount of fully paid 8% Debentures in ANU Ltd. at 96% as is sufficient to discharge 9% Debentures in SRISHTI Ltd. at a Premium of 20%.

(iv) To take over the Tangible Fixed Assets at 100% more than the book value, Inventories at ₹7,10,000 and Trade Receivables at their face value subject to a provision of 5% for doubtful Debts.

(v) To reimburse Liquidation cost of SRISHTI Ltd. to the extent of ₹50,000. The actual cost of liquidation of SRISHTI Ltd. was ₹75,000.

(vi) Statutory Reserves are to be maintained for 1 more year.

You are required to:

(I) Prepare Realisation Account, Purchasing Company's Account, Shareholders Account and Debenture Account, and

(II) Press Journal Entries in the books of Purchasing Company regarding acquisition of business. 10

(b) State under which had these accounts should be classified in balance Sheet as per Schedule III of the Companies Act:

(i) Short- term provisions

(ii) Deferred tax liabilities (Net)

(iii) Money received against share warrants

(iv) Capital work-in-progress

(v) Cash and cash equivalents 5

Answer :

(a) (i)

Purchase Consideration	₹
Cash payment for (3,00,000 × ₹ 2.5) Equity Shares (4,50,000 × ₹ 15)	7,50,000 67,50,000
	75,00,000

Dr. REALISATION ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Goodwill	5,00,000	By 9% Debentures	5,00,000
To Tangible Fixed Assets	30,00,000	By Trade Payble	1,00,000
To Inventories	10,40,000	By Ami Ltd. (Purchase consideration)	75,00,000
To Trade Receivable	1,80,000		
To Cash & Bank A/c (2,80,000 - 25,000)	2,55,000		
To Cash & Bank A/c (Exp.)	25,000		
To Profit on realization	31,00,000		
	81,00,000		81,00,000

Dr. EQUITY SHAREHOLDERS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Preliminary expenses	50,000	By Equity Share capital	30,00,000
To Equity Shares in Anu Ltd	67,50,000	By Export Profit Reserves	8,50,000
To Cash & Bank A/c	7,50,000	By General Reserves	50,000
		By P & L A/c	5,50,000
		By Realization A/e	31,00,000
	75,50,000		75,50,000

Dr. 9% DEBENTURES ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Realization A/c	5,00,000	By balance b/d	5,00,000

Dr. ANU LTD. Cr.

Particulars	₹	Particulars	₹
To Realization A/c	75,00,000	By Share Capital By bank A/c	67,50,000 7,50,000
	75,00,000		75,00,000

(ii) **JOURNAL OF ANU LTD.**

Date	Particulars		Dr. (₹)	Cr. (₹)
1.	Business Purchase A/c To Liquidator of Srishti Ltd.A/c (Being business of Srishti Ltd. taken over)	Dr.	75,00,000	 75,00,000
2.	Tangible Fixed Assets A/c Stock A/c Debtors A/c Cash & Bank A/c Goodwill A/c (bal. fig)	Dr. Dr. Dr. Dr. Dr.	60,00,000 7,10,000 1,80,000 2,55,000 10,64,000	

	To Provision for doubtful debts A/c To Liability for 9% Debentures A/c To Creditors A/c To Business Purchase A/c (being assets and Liabilities taken over)		9,000 6,00,000 1,00,000 75,00,000
3.	Amalgamation Adjustment A/c Dr. To Export Profit Reserves A/c (Being statutory Reserves taken over)	8,50,000	 8,50,000
4.	Goodwill A/c Dr. To Bank A/c (Liquidation expenses reimbursed)	50,000	 50,000
5.	Liquidator of Shristi Ltd. A/c Dr. To Equity Share Capital A/c To Securities Premium A/c To Bank A/c (Being purchase consideration discharged)	75,00,000	 45,00,000 22,50,000 7,50,000
6.	Liability for 9% Debentures A/c Dr. (5,00,000 × 120 / 100) Discount on issue of debentures A/c Dr. To 8% Debentures A/c (6,00,000 × 100/96) (Being liability of debenture holder's discharged)	6,00,000 25,000	 6,25,000

(b)

(i) Current Liabilities,

(ii) Nor, Current Liabilities;

(iii) Shareholder's Fund;

(iv) Non Current Assets

(v) Current Assets.

6. (a) ZIL Ltd. floated a public issue of 37500 equity shares having face value of ₹10 each at par. Vineet, Vikash and Vikram has taken underwriting of the issue in equal share with firm underwriting of 6250, 5000 and 5000 shares respectively. Applications were received for 36500 shares out of which the marked applications were as under: Vineet: 6150 shares, Vikash : 5000 shares, Vikram : 3750 shares
Credit of unmarked applications is to be given to underwriters equally.

The agreed underwriting commission was 5%. Total amount payable on application and allotment was ₹ 5 and balance in calls.

You are required to show:

(i) Liability of each underwriter in shares and amount both,
(ii) Commission due to underwriters,
(iii) Net cash paid/ received from underwriters. 8

(b) SAKET Ltd. recently made a public issue in respect of which the following information is available;

- **No. of partly convertible debentures issued 1,00,000; face value and issue price of ₹100 per debenture.**
- **Convertible portion per debenture; 80%, date of conversion-on expiry of 7 months from the date of closing of issue.**

- **Date of closure of subscription list 01.06.16, date of allotment: 01.07.16, rate of interest on debentures; 10% p.a. payable from the date of allotment. Value of equity share for the purpose of conversion ₹40 (Face value ₹10).**
- **Underwriting commission 3%.**
- **No. of debentures applied for 75000.**
- **Interest payable on debentures— half yearly on 30.09.16 and 31.03.17.**

You are required to pass necessary journal entries as on 31st March, 2017. 7

Answer:

(a) (i) Calculation of Liability of each underwriter

Particulars	Vineet	Vikaash	Vikram	Total
Gross liability	12,500	12,500	12,500	37,500
Less: Marked applications (excluding firm underwriting)	(6,150)	(5,000)	(3,750)	(14,900)
Balance	6,350	7,500	8,750	22,600
Less: Unmarked applications (including firm underwriting)	(7,200)	(7,200)	(7,200)	(21,600)
Net Liability	(850)	300	1550	1,000
Less: Surplus of Vineet allocated to Vikash & Vikram	850 ------	(300) -----	(500) 1,000	------ 1,000
Add: Firm underwriting	6,250	5,000	5,000	16,250
Total liability in shares	6,250	5,000	6,000	17,250
Total liability in amount @ ₹10	62,500	50,000	60,000	1,72,500

(ii) Commission due = 12,500 × ₹10 × 5% = ₹6,250 each

(iii) Calculation of net cash paid/received from underwriters:

Particulars	Vineet	Vikaash	Vikram	Total
Total liability in amount	62,500	50,000	60,000	1,72,500
Less: Underwriting commission payable @5% on amount underwritten	(6,250)	(6,250)	(6,250)	(18,750)
	56,250	43,750	53,750	1,53,750
Amount already paid @ ₹5	(31,250)	(25,000)	(25,000)	(81,250)
Net amount paid (in ₹)	25,000	18,750	28,750	72,500

(b) In the books of SAKET LTD.

Journal Entries

Date	Particulars	Dr.(₹)	Cr.(₹)
01.06.16	Bank A/c Dr. To Debenture Application A/c (Being Application money received on 75,000 debentures @ ₹100 each)	75,00,000	 75,00,000
01.07.16	Debenture Application A/c Dr. Underwriters A/c Dr. To 10% Debentures A/c (Being allotment of 75,000 debentures to applicants and 25,000 debentures to	75,00,000 25,00,000	 1,00,000

	underwriters)		
	Underwriting Commission A/c Dr. To Underwriters A/c (Being commission payable to underwriters on 1,00,000 debentures of ₹100 each @3%)	3,00,000	3,00,000
	Bank A/c Dr. To Underwriters A/c (Being amount received from underwriters on settlement of account)	22,00,000	22,00,000
30.09.16	Debentures Interest A/c Dr. To Bank A/c (Being interest paid on debentures for 3 months from 01.07.16 to 30.09.16 on ₹1,00,00,000 @ 10%p.a.)	2,50,000	2,50,000
31.12.16	10% Debentures A/c Dr. To Equity Share Capital A/c To is securities Premium A/C (Being conversion of 80% of debentures into shares @ ₹40 per share with face value of ₹10 each)	80,00,000	20,00,000 60,00,000
31.03.17	Debenture Interest A/c Dr. To Bank A/c (Being interest paid on debentures for the half year)	3,00,000	3,00,000
	Profit & loss A/c Dr. To Debenture interest A/c (Being debentures interest for the year charged to profit & loss A/c)	5,50,000	5,50,000

Working Note:

Calculation of Debenture of Interest for the half year ended 31st March,2017	
Particulars	₹
On ₹20,00,000 for 6 months @ 10%	1,00,000
On ₹80,00,000 for 3 months @ 10%	2,00,000
Total	3,00,000

7. (a) Write about finance lease and operating lease. **7**

(b) The following relevant items of cash flow statement of EZAZ Ltd. Prepared for the year 31st March, 2017:

Particulars	Amount (₹)	Amount (₹)
Net profit		**1,50,00,000**
Add: Sale of investment		**1,75,00,000**
Depreciation of Assets		**27,50,000**
Issue of preference shares		**22,50,000**
Loan raised		**11,25,000**
Decrease in stock		**30,00,000**
		4,16,25,000

Less: Purchase of Fixed Assets **Decrease in Creditors** **Decrease in Debtors** **Exchange gain** **Profit on sale of investments** **Redemption of debentures** **Dividend paid** **Interest paid**	**1,62,50,000** **15,00,000** **20,00,000** **20,00,000** **30,00,000** **14,25,000 3,50,000** **2,36,250**	 **2,67,61,250**
 Add: Opening Cash and Cash equivalent		**1,48,63,750** **30,85,250**
Closing Cash and Cash equivalent		**1,79,49,000**

You are required to redraft and reconstruct the cash flow statement of EZAZ Ltd. in proper order for the year ended 31st March, 2017 in accordance with AS-3 using indirect method. **8**

Answer:

(a) Finance Lease:

It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership. In following situations the lease transactions are called finance lease.

- The lease will get the ownership of leased asset at the end of the ease term,
- The lessee has an option to buy the leased asset at the end of term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset.
- At the beginning of lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Operating Lease:

It is a lease which does not transfer substantially all the risk and reward incidental to ownership. Classification of lease is made at the inception of the lease; if at any time the lessee and lesser agree to change the provision of lease and it results in different category of lease, it will be treated as separate agreement.

(b)

EZAZ Ltd.
Cash flow statement for the year ended 31st march, 2017

		Amount (₹)	Amount (₹)
1	**Cash flow** from Operating Activities: Net profit before Tax and Extra ordinary items: Adjustment for: Depreciation Profit on Sale of investment Foreign Exchange gain	 27,50,000 (30,00,000) (20,00,000)	 1,50,00,000
	Working Capital Adjustment:		(22,50,000)

			1,27,50,000
	Decrease in stock Decrease in Creditors Increase in Debtors	30,00,000 (15,00,00) (20,00,000)	(5,00,000)
	Cash from operation		1,22,50,000
	Tax paid		
	Cash flow from operating activities		
2	**Cash flow from investing activities**		
	Sale of investments	1,75,00,000	
	Purchase of fixed assets	(1,62,50,000)	
	Net cash from investing activities		12,50,000
3	**Cash flow from Financing activities:**		
	Loan raised	11,25,000	
	issue of Preference shares	22,50,000	
	Redemption of Debentures	(14,25,000)	
	Dividend paid	(3,50,000)	
	Interest paid	(2,36,250)	
	Net cash from financing activities		13,63,750
			1,48,63,750
	Net increase in Cash and Cash Equivalents		
	Cash and Cash Equivalents at beginning of the year		30,85,250
	Cash and Cash at the end of the year		1,79,49,000

Alternative Solution:

In the question if it is "Increase in Debtors" in place of "Decrease in Debtors" the solution will be as follows:

EZAZ Ltd.

Cash flow statement for the year ended 31st March,2017

Particulars	Amount (₹)	Amount (₹)
Cash flow from Operating Activities:		
Net Profit		1,50,00,000
Adjustment for:		
Depreciation	27,50,000	
Profit on Sale of Investment	(30,00,000)	
Foreign Exchange gain	(20,00,000)	(22,50,000)
		1,27,50,000
Working Capital Adjustment:		
Decrease in Stock	30,00,000	
Decrease in Creditors	(15,00,000)	
Decrease in Debtors	20,00,000	35,00,000
Cash flow from Operating Activities		1,62,50,000
Cash flow from Investing Activities:		
Sale of Investments	1,75,00,000	
Purchase of Fixed Assets	(1,62,50,000)	12,50,000
Net Cash Flow from Investing Activities		12,50,000
Cash Flow from Financing Activities:		
Loan raised	11,25,000	
Issue of Preference Shares	22,50,000	

Redemption of Debentures	(14,25,000)	
Dividend paid	(3,50,000)	
Interest paid	(2,36,250)	13,63,750
Net Cash Flow from Financing Activities		13,63,750
Increase in Cash and Cash Equivalents		**1,88,63,750**
Cash and cash Equivalents at the beginning of the year		**30,85,250**
Cash and Cash Equivalents at the end of the year		**2,19,49,000**

SECTION – C

Answer any two questions from Q no 8, 9 and 10. 15×2=30

8. (a) How will you vouch the Sale of Investments? 7

(b) How will you verify Inventories? 8

Answer:

(a)

1. Confirm that Sale of investments is duly authorized by the competent authority.
2. Verity the amount received with reference to Sufficient Appropriate Audit Evidence ,such as Broker's Contract Note, Bank Statements
3. Check that Interest, Dividends, Rentals on Investments have been shown in Statement of Profit & Loss at Gross Value and TDS as advance tax paid in the Balance Sheet.
4. Check that Profit /Loss(net of expenses, if any) on Sale of Investments has been duly accounted for as per AS 13.
5. Check that the carrying amount is allocated on the basis of average carrying amount of the total holding of the investments as per AS 13.
6. Check that the changes in carrying amount of current and long term, investments have been duly disclosed as per AS 13.
7. Verify the Investments at the yearend physically and confirm the title.
8. Verify whether Investments are duly measured, recognized, presented and disclosed in Financial Statements in accordance with applicable Accounting Standards (e.g. AS 13) and Policies and relevant statutory requirements.

Answer:

(b)

1. Obtain sufficient appropriate audit evidence that:

   (a) the closing balances of the preceding period have been correctly brought forward to the current period;

   (b) the opening balances do not contain misstatements that materially affect the financial statements for the current period; and

(c) Appropriate accounting policies are consistently applied.

2. Reconcile the quantities of Opening Stocks, Purchases, Production, Sales and Closing Stocks;
3. Compare the Closing Stock Quantities and amounts of Raw material, work-in-progress and Finished goods with the corresponding figures of the previous year.
4. Compare the Stock Turnover Ratios for the current year with that of the previous year and with industry standards if available.
5. Compare Current Year's Gross Profit Ratio with that of the previous year.
6. Compare Actual Stock, Purchase and Sales figures with the budgeted figures, if available.
7. Compare Raw-Material Yield/Wastage with previous year figures.
8. Examine the compliance of "Accounting Standard 2: Valuation of Inventory" and adequacy of the method and procedures of physical verification followed by the entity.
9. Determine whether the procedure for identifying Defective, Damage, Obsolete and Slow Moving items are well designed and operate properly.
10. Ascertain reasonableness of the physical verification of inventory by the management.
11. Ascertain whether discrepancy, if any, observed in such a physical verification had been duly accounted for.

9. (a) Distinguish between Audit of a company and Audit of a Firm. 7

(b) Briefly mention the provisions relating to cost Audit. 8

Answer:

(a)

Sl. No.	Company	Firm
1.	The audit of a company is governed by the provisions of the Companies Act, 2013 (governed by statute).	The audit of a firm is governed by the agreement between the auditor and the client, with reference to the partnership agreement.
2.	The scope of the audit is well defined by the Act and cannot be reduced by including a clause in the Articles of Association.	The scope of the audit can be extended or reduced by the partners.
3.	Generally appointed by the shareholders in the Annual General Meeting, but may also be appointed by the Board of Directors, Central Government, or the CAG, in certain case; as specified under the Act.	Partners appoint the auditor.
4.	All the disclosures required to be made under the Act in the Financial Statements have to be checked.	All the disclosures which are necessary to be made in accordance with recognized accounting principles and practices have to be checked.
5.	The audit report has to be submitted	The audit report has to be submitted to the

	to the shareholders of the company.	partners or to any other person as specified in the terms of his appointment.

Answer:

(b)

1. Cost Audit covered by Section 148 shall be in addition to the audit conducted u/s 143.
2. As per the section 148 the Central Government may by order specify audit of items of cost in respect of certain companies.
3. Further, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies.
4. The Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such Special Act.
5. Appointment of Cost Auditor [Rule 14 of The Companies (Audit and Auditors) Rules, 2014]

In the case of Companies required to constitute an Audit Committee	1. Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such Cost Auditor; 2. Remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders.
In the case of other Companies	The Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as Cost Auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

Note: Provided that no person appointed u/s 139 as an auditor of the company shall be appointed for conducting the cost audit.

6. Cost Auditor conducting the audit shall comply with the Cost Auditing Standards ("cost auditing standards" mean such standards as are issued by the Institute of Cost and Works Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government).
7. The qualifications, disqualifications, rights, duties and obligations applicable to auditors shall, so far as may be applicable, apply to a Cost Auditor appointed under this section
8. It shall be the duty of the company to give ail assistance and facilities to the cost auditor appointed

9. Cost Audit Report shall be submitted by the Cos! Auditor to the Board of Directors of the company
10. A company shall within 30 days from the date of receipt of a copy of the Cost Audit Report prepared (in pursuance of a direction issued by Central Government) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.

10. (a) Mention the special steps involved in the audit of an Educational Institutions. 10

(b) What are the responsibilities of Joint Auditor 5

Answer:

(a) The special steps involved in the audit of an educational institution are the following:

1. Examine the Trust Deed or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed thereunder.
2. Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, specially the decisions as regards the operation of bank accounts and sanctioning of expenditure.
3. Check names entered in the Students' Fee Register for each month or term, with the respective class registers, showing names of students on rolls and test amount of fees charged; and verify that there operates a system of internal check which ensures that demands against the students are properly raised.
4. Check fees received by comparing counterfoils of receipts granted with entries in the cash book and tracing the collections in the Fee Register to confirm that the revenue from this source has been duly accounted for.
5. Total up the various columns of the Fees Register for each month or term to ascertain that fees paid in advance have been carried forward and the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
6. Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital fund, unless the Managing Committee has taken a decision to the contrary.
7. See that free studentship and concessions have been granted by a person authorised to do so, having regard to the prescribed Rules.
8. Confirm that fines for late payment or absence, etc., have either been collected or remitted under proper authority.
9. Confirm that hostel dues were recovered before students' accounts were closed and their deposits of caution money refunded.
10. Verify rental income from landed property with the rent rolls, etc.
11. Vouch income from endowments and legacies, as well as interest and dividends from investment; also inspect the securities in respect of investments held.
12. Verify any Government or local authority grant with the relevant papers of grant. If any expense has been disallowed for purposes of grant, ascertain the reasons and compliance thereof.

13. Report any old heavy arrears on account of fees, dormitory rents, etc, to the Managing Committee.
14. Confirm that caution money and other deposits paid by students on admission have been shown as liability in the balance sheet and not transferred to revenue.
15. See that the investments representing endowment funds for prizes are kept separate and any income in excess of the prizes has been accumulated and invested along with the corpus.
16. Verify that the Provident Fund money of the staff has been invested in appropriate securities.
17. Vouch donations, if any, with the list published with the annual report. If some donations were meant for any specific purpose, see that the money was utilised for the purpose.
18. Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
19. Vouch in the usual manner all establishment expenses and enquire into any unduly heavy expenditure under any head.
20. See that increase in the salaries of the staff have been sanctioned and minuted by the Committee.
21. Ascertain that the system ordering inspection on receipt and issue of provisions, foodstuffs, clothing and other equipment is efficient and ail bills are duly authorised and passed before payment.
22. Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. These should be checked by reference to Inventory Register and values applied to various items should be test checked.
23. Confirm that the refund of taxes deducted from the income from investment (interest on securities, etc.) has been claimed and recovered since the institutions are generally exempted from the payment of income-tax.
24. Verify the annual statements of accounts and while doing so see that separate statements of account have been prepared as regards Poor Boys Fund, Games Fund, Hostel and Provident Fund of staff, etc.

Answer:

(b) In respect of audit work divided among the joint auditors, each joint auditor is responsible only for the work allocated to him, whether or not he has prepared a separate report on the work performed by him. On the other hand, all the joint auditors are jointly and severally responsible -

(i) In respect of the audit work which is not dividend among the joint auditors and is carried out by all of them;

(ii) In respect of decisions taken by all the joint auditors concerning the nature, timing or extent of the audit procedures to be performed by any of the joint auditors. It may, however, be clarified that all the joint auditors are responsible only in respect of the appropriateness of the decisions concerning the nature, timing or extent of the audit procedures agreed upon among them; proper execution of these audit procedures is the separate and specific responsibility of the joint auditor concerned;

(iii) In respect of matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;

(iv) For examining that the financial statements of the entity comply with the disclosure requirements of the relevant statute; and

(v) For ensuring that the audit report complies with the requirements of the relevant statute.