INTERMEDIATE EXAMINATION

December 2014

P–12(CAA)
Syllabus 2012

Company Accounts and Audit

Time Allowed: 3 Hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.

This paper contains four questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.

Assumptions, if any, must be clearly indicated.

1. Answer *all* questions: 2×10=20

(a) State the classification of cash flow activities as per AS-3.

(b) During the year 2013-14, Purvi Limited received a grant from the Government of India amounting to ₹ 35 lakh towards purchase of a piece of land for ₹ 140 lakh.

You are required to show the accounting treatment of the above transaction in the books of Purvi Limited, as per AS-12.

(c) Chandra Limited purchased a machinery of ₹ 10,00,000 from Machinery Mart. The consideration was paid in the form of fully paid up equity shares of ₹ 10 each at 60% premium. Pass necessary journal entries in the books of Chandra Ltd.

(d) What are the types of amalgamation as per AS-14?

(e) What are the various modes of buy-back of shares by a Limited Company?

(f) X Ltd. decides to redeem 650, 15% preference shares of ₹ 100 each at 10% premium. It has General Reserve of ₹ 45,500 and securities premium of ₹ 1,000. The new equity shares of ₹ 10 each are to be issued at 25% premium for the purpose of redemption of preference shares. Calculate the minimum number of equity shares to be issued by X Ltd.

(g) What is the basic difference between audit report and audit certificate?

(h) What do you understand by audit programme?

(i) State the three components of audit risk.

(j) Mention four situations where external confirmation may be useful for auditors.

2. Answer *any two* questions: 8×2=16

(a) Neel Limited issued 5,00,000 equity shares of ₹ 10 each, fully paid amounting to ₹ 50,00,000. It issued right shares among the existing shareholders, on 31st July, 2013 in the proportion of one new share for two outstanding shares at ₹ 50 each. Market price of the company's share prior to right issue was ₹ 90. Net profit before tax for the year ending on 31st March, 2013 and 31st March, 2014 was ₹ 11,00,000 and ₹ 13,50,000 respectively. Corporate tax rate is 30%.

You are required to compute the basic earnings per share for the financial years 2012-13 and 2013-14. 8

(b) (i) Kachari Limited granted 25,000 employees stock options (face value ₹ 10) on 1st April, 2012 at ₹ 100, when the market price was ₹ 425. The options were to be exercised between 16th October, 2012 and 15th March, 2014. The employees exercised their options for 22,500 shares only. The remaining options lapsed. The company closes its books on 31st March every year. Pass Journal entries. 4

(ii) Hetarth Ltd. provides after sales warranty for 2 years to its customers. Based on the past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under:

Invoice Date	Amount ₹
19th January, 2012	40,000
29th January, 2013	25,000
15th October, 2013	90,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2013 and 31st March, 2014. Also compute amount to be debited to Profit and Loss Account for the year ended 31st March, 2014. 4

(c) (i) MN Ltd. acquired a patent at a cost of ₹ 90 lakh for a period of six years and the product life cycle is also six years. The company capitalized the cost and started amortising at ₹ 15 lakh per annum. After 3 years, it was found that the product life cycle may continue for another 5 years from then. The net cash flow from the product during these 5 years are expected to be ₹ 30 lakh, ₹ 45 lakh, ₹ 38 lakh, ₹ 35 lakh and ₹ 32 lakh.

Find out the amortization cost of the patent for each of the years as per AS-26. 5

(ii) From the following information, calculate the actual return on pension plan assets:

	₹
Fair market value of plan assets on 1st April, 2013	45,00,000
Fair market value of plan assets on 31st March, 2014	51,20,000
Employer's contribution	6,65,000
Benefit paid to retirees	7,60,000

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3. Answer *any two* questions: 16×2=32

(a) (i) Masood Ltd. came out with an issue of 45 lakh equity shares of ₹ 10 each at a premium of ₹ 2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by P, Q and R respectively.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:

P	7,25,000 shares
Q	8,40,000 shares
R	13,10,000 shares
	28,75,000 shares

The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towards shares subscription has to be paid along with application.

You are required to:

(1) Compute the underwriters' liability (number of shares);

(2) Compute the amount payable as due to underwriters; and

(3) Pass necessary Journal Entries in the books of Masood Ltd. relating to underwriters.

(*Note:* As per contract, the underwriters are to be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten.) 8