INTERMEDIATE EXAMINATION

June 2017

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.
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 question.

SECTION – A

Answer all the following questions.

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

(a) ROLTA Ltd. had 10,00,000 equity shares (₹ 10 each) outstanding on 01.04.2016. The company issued one new share (right) for each five shares outstanding at ₹ 15 on 01.06.2016. The fair value of one Equity Share immediately before the right issue was ₹ 21. Calculate as per AS20, the theoretical ex-rights fair value per share of ROLTA Ltd.

(b) RENAN Ltd. finds at the end of financial year 2016-17 that there is a law suit outstanding. The possible outcome as estimated by the Board of Directors are as under:

	Probability	Amount of Loss (₹)
Win	0·55	---
Loss-with high damages	0·20	1,50,000
Loss-with low damages	0·25	1,20,000

Compute the amount of contingent liability to be shown by way of a note to the financial statement as per AS-29.

(c) What are the items taken into account while calculating segmental revenue?

(d) URASHI Ltd. acquired a patent at a cost of ₹ 60 lakh for a period of four years and the product life cycle is also four years. The company capitalized the cost and started amortizing at ₹ 15 lakh per annum. After three years, it was found that the product life cycle may continue for another 3 years from then. The net cash flow from the product during these 3 years are expected to be ₹ 20 lakh, ₹ 30 lakh and ₹ 25 lakh respectively.

Find out the amortization cost of the years as per AS-26.

(e) State the disclosure requirements under AS-12.

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

	Column 'A'		Column 'B'
1.	Defined Contribution Plans	(a)	AS-20
2.	Amalgamation in the nature of merger	(b)	Unearned finance income
3.	Diluted Potential Equity Shares	(c)	AS-15
4.	AS-29	(d)	Pooling of Interest Method
5.	AS-19	(e)	Onerous Contract

3. Answer *any two* questions: 5×2=10

(a) What do you understand by Audit Evidence?

(b) What are the objectives of Operational Audit?

(c) 'Management audit is useful for society at large'.—Comment.

(d) Write a short note on Defined Contribution Plan?

(e) State the two components of Audit risk.

SECTION – B

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

4. (a) A company had 16,000, 12% Debentures of 100 each outstanding as on 1st April, 2015, redeemable on 31st March, 2016. On that day, Sinking fund was ₹ 14,98,000 represented by 2000 own debentures purchased at the average price of ₹ 99 and 9% stocks face value of ₹ 13,20,000. The annual instalment was ₹ 56,800.

On 31st March, 2016 the investments were realized at ₹ 98 and the debentures were redeemed. You are required to prepare 12% Debentures Account and Debenture Redemption Sinking Fund Account for the year ending 31st March 2016. 9

(b) Goods purchased on 24.2.2016 of US $1,000 for which payment was made on 05.06.2016. Exchange Rate on 24.2.2016 ₹ 61·60 per US $, on 31.3.2016 ₹ 62·00 per US $, 05.06.2016 ₹ 62·50 per US $. State the Accounting Treatment at the date of transaction, reporting date and settlement date as per AS-11. 6

5. (a) The following particulars relate to VIEN Ltd. which has gone into voluntary liquidation on 31st December, 2015:

Liabilities	Amount (₹)	**Assets**	Amount (₹)
Share capital:		**Assets:**	
5000, 10% Cumulative preference shares of ₹ 100 each fully paid-up.	5,00,000	*Non-current assets*	
2500 Equity shares of ₹ 100 each 75 paid up.	1,87,500	Land & Building	2,50,000
7500 Equity shares of ₹ 100 each, 60 paid up.	4,50,000	Plant & Machinery	6,25,000
Non-current Liabilities		Furniture & Fixtures	1,00,000
15% Debentures secured by a floating charge	2,50,000	*Current assets*	
Current Liabilities		Stock	1,37,500
Trade payables	3,18,750	Trade receivables	2,75,000
Outstanding interest on debentures	37,500	Cash and bank balance	75,000
		Profit & Loss Account	2,81,250
	17,43,750		**17,43,750**

Other Information:

(i) The assets were sold and realized as follows:

	₹
Land & Building	3,00,000
Plant & Machinery	5,00,000
Furniture & Fixtures	75,000
Stock	1,50,000
Trade Receivables	2,00,000
Expenses of liquidation were	27,250

(ii) Preference shares dividends are in arrears for the last 2 years.

(iii) Trade payables include preferential creditors of ₹ 38,000.

(iv) Liquidator is entitled to receive commission of 3% on assets realized except cash.

(v) Preference shareholders have right to dividend at the time of liquidation.

(vi) The final payment including those on debentures is made on 30th June, 2016.

You are required to prepare liquidator's final statement of account. 9

(b) From the following information, prepare Cash Flow Statement:

BALANCE SHEET AS AT 31.03.2016			
Particulars	**Note**	**31.03.2016 ₹**	**31.03.2015 ₹**
I. EQUITY AND LIABILITIES			
(1) Shareholder's Funds			
(a) Share Capital		12,50,000	10,00,000
(b) Reserves and Surplus	1	4,90,000	4,00,000
(2) Non-Current Liabilities [Long Term Loan]		4,00,000	5,00,000
(3) Current Liabilities			
Trade payables		4,00,000	5,00,000
Short-term Provisions (Provision for tax)		60,000	50,000
Total		26,00,000	24,50,000
II. ASSETS			
(1) Non-Current Assets			
Tangible Fixed Assets	2	13,00,000	11,50,000
Non-Current Investments		50,000	1,00,000
(2) Current Assets			
Inventories		2,80,000	3,00,000
Trade Receivables		4,20,000	4,00,000
Cash & Cash Equivalents		5,50,000	5,00,000
Total		26,00,000	24,50,000

NOTE1: RESERVES AND SURPLUS		
Particulars	**31.03.2016 ₹**	**31.03.2015 ₹**
Profit and Loss A/c	4,80,000	4,00,000
Capital Reserve	10,000	---
Total	4,90,000	4,00,000

NOTE2: TANGIBLE FIXED ASSETS		
Particulars	**31.03.2016 ₹**	**31.03.2015 ₹**
Land Building	3,80,000	4,00,000
Machinery	9,20,000	7,50,000
Total	13,00,000	11,50,000

Additional information:

(1) Depreciation written off on land and building ₹ 20,000.

(2) The company sold some investment at a profit of ₹ 10,000, which was credited to Capital Reserve.

(3) Income-tax provided during the year ₹ 55,000.

(4) During the year the company purchased a machinery for ₹ 2,25,000. They paid ₹ 1,25,000 in cash and issued 10000 equity shares of ₹ 10 each at par.

You are required to prepare a Cash Flow Statement for the year ended 31st March 2016 as per AS3 by using indirect method. 6

6. (a) Crystal Company Limited decided to reconstruct its business as it has accumulated huge losses. The following is the Balance Sheet of the company as on 31.03.2016 before reconstruction:

BALANCE SHEET AS ON 31.03.2016			
Liabilities	₹	**Assets**	₹
300000 Equity shares of ₹ 10 each fully paid up	30,00,000	Goodwill	5,20,000
160000, 6% Preference shares of ₹ 10 each fully paid up	16,00,000	Patents	1,50,000
6% Debentures (Secured against Land & Building)	15,00,000	Land & Building	17,00,000
Bank overdraft	5,80,000	Plant & Machinery	2,00,000
Trade Payables	12,00,000	Investments (at cost)	2,20,000
Provision for Income Tax	2,00,000	Trade Receivables	17,40,000
		Inventories	17,00,000
		Profit & Loss A/c	18,50,000
	80,80,000		80,80,000

Following scheme of reconstruction has been approved by all interested parties:

(i) All equity shares are reduced to ₹ 3 each and preference shares to ₹ 7 each.

(ii) Debenture holders agree to take over a part of land and building, book value of which is ₹ 7,00,000 towards their 50% claim. Rate of interest of balance 50% debentures increased to 9%.

(iii) Goodwill and patent will be written off.

(iv) 10% of Trade Receivables to be provided for bad debts.

(v) Inventories to be written off by ₹ 2,60,000.

(vi) 50% of balance land & building sold for ₹ 6,00,000 and remaining land & building valued at ₹ 6,00,000.

(vii) Investments to be sold for ₹ 2,00,000.

(viii) There are pending contracts amounting to ₹ 70,00,000. These contracts are to be cancelled on payment of penalty @ 5% of pending contract amount.

(ix) The income tax liability of the company is settled at ₹ 3,06,000. Provision for income tax will be raised accordingly.

(x) 1/3 of Trade Payables decided to forgo their claim.

(xi) After making all the above adjustments, balance amount available through scheme, will be utilized to write off the value of plant & machinery to that extent.

Required: Pass the necessary journal entries. 10

(b) Write short note on : Managerial Remuneration. 5

7. (a) The following is summarized Balance Sheet of JEEL Ltd. as on 31st March, 2017:

Liabilities	Amount (₹)	Amount (₹)	**Assets**	Amount (₹)	Amount (₹)
Share capital					
Authorized capital:		25,00,000	Fixed Assets Cost:	15,00,000	
Issued and subscribed Capital: 150000 equity shares of ₹10 each fully paid	15,00,000		*Less*: Provisions for depreciation	1,25,000	13,75,000
10000 9% Preference shares of ₹100 each (issued 2 months back for the purpose of buy back)	10,00,000	25,00,000	Non-current investments at cost		25,00,000
			Current Assets, Loans and Advances (including cash and bank balances)		20,00,000
Reserve and surplus:					
Capital reserve	5,000				
Revenue reserve	20,00,000				
Securities premium	2,50,000				
Profit & Loss account	9,00,000	31,55,000			
Non-current liabilities:					
10% Debentures		2,00,000			
Current liabilities and provisions		20,000			
		58,75,000			58,75,000

(i) The company passed a resolution to buy back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 30 lakhs for ₹ 25 lakhs.

(ii) The company redeemed the preference share at a premium of 10% on 1st April, 2017.

(iii) Included in its investments were investments in own debentures costing ₹ 1,50,000 (face value ₹ 1,65,000). These debentures were cancelled on 1st April, 2017.

You are required to pass necessary journal entries on 01.04.17. 10

(b) Write short note on Contingent Liability. 5

SECTION – C

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

8. (a) State the general guidelines for preparing audit working papers. 6

(b) What are the services which cannot be rendered by a statutory auditor of a company under section 144 of the Companies Act, 2013? 4

(c) Highlight the principles in SA 299 on Division of work among joint auditors. 5

9. (a) "Auditor's assessment of materiality may be different at the time of planning the engagement than at the time of evaluating the results of his audit procedures". Comment. 8

(b) Who is responsible for preparation and presentation of financial statements? 7

10. (a) As an Auditor state how will you verify 'Loans and Advances' appearing in the financial statement of the company. 8

(b) Mention the special steps involved in audit of Cinema Hall. 7