INTERMEDIATE EXAMINATION

June 2017

P–12(CAA)
Syllabus 2016

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.

The Question paper has two Sections, A and B. Both sections are to be answered as per instruction given against each.

Section – A (Company Accounts)

Answer Question No. 1 *and* any three *from* Question No. 2, 3, 4 *and* 5.

1. **(a) Choose the correct answer from the four alternatives given:** $1 \times 6 = 6$

(i) Underwriting Agreements are of

(A) One type

(B) Two types

(C) Three types

(D) Four types

(ii) Segment Reporting is covered under

(A) AS 16

(B) AS 17

(C) AS 18

(D) AS 19

(iii) On redemption of Debentures, the amount lying in Debenture Redemption Reserve, which is no longer necessary to be retained, should be transferred to

(A) Revaluation Reserve

(B) Securities Premium Reserve

(C) Capital Reserve

(D) General Reserve

(iv) Rate of provisioning by a Bank for Advances doubtful for more than 1 year but less than 3 years is

(A) 25%

(B) 40%

(C) 60%

(D) 100%

(v) Balance of Interest Accrued on Security Deposit A/c of an Electricity company should be shown

(A) under Current Liability.

(B) under Non-current Liability.

(C) under Current Asset.

(D) under Non-current Asset.

(vi) Which of the following items is not a part of cash flow from operating activities?

(A) Collection from customers

(B) Payment of outstanding wages

(C) Payment to suppliers of machinery

(D) Advances to foreign suppliers for raw materials

(b) Match the following items in Column 'A' with items shown in Column 'B': 1×4=4

	Column 'A'		Column 'B'
1.	Grants Received from Government	A.	Capital Redemption Reserve
2.	Redemption of Debentures	B.	AS 15
3.	Issue of Bonus shares	C.	AS 12
4.	Defined benefit plans	D.	Sinking Fund

(c) State whether the following statements are True or False: 1×4=4

(i) Exchange difference arising in respect of monetary items is to be recognized as income or expenditure during the year.

(ii) Capital Reserve is a Reserve which is available for distribution as Dividend.

(iii) Interest received by a finance company is a part of cash flow from investing activities.

(iv) Interest accrued and due should be shown under the head Other Current Liabilities in a Balance Sheet of a Company.

2. (a) A joint stock company resolved to issue 5 lakh equity shares of ₹ 10 each at a premium of ₹ 1 per share. 50000 of these shares were taken up by the directors and their relatives, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by P, Q and R for a commission of 2% of the issue price. 65% of the issue was underwritten by P, while Q and R's share were 25% and 10% respectively. Their firm underwriting was as follows:

P 15000 shares, Q 10000 shares and R 5000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with the members of the general public.

Marked applications were as follows: P 59750 shares, Q 28750 shares and R 5250 shares. Unmarked applications totaled 350000 shares.

Accounts with the underwriters were promptly settled.

You are required to prepare a statement calculating liability of the Underwriters for shares other than shares underwritten Firm and also calculate the amount due from/to the Underwriters. 8

(b) M Ltd. sold machinery having WDV of ₹ 200 Lakhs to N Ltd. for ₹ 250 Lakhs and the same machinery was leased back by N Ltd. to M Ltd. The lease back is an operating lease. Comment on the accounting treatment as per AS 19 in the following circumstances:

(i) Fair value is ₹ 230 Lakhs and sale price is ₹ 250 Lakhs

(ii) Fair value is ₹ 175 Lakhs and sale price is ₹ 195 Lakhs 4

3. (a) From the following information provided, prepare a Cash Flow Statement as per AS-3.

Balance Sheet of PQR Ltd.

		Particulars	Note No.	As on 31.03.16 ₹	As on 31.03.15 ₹
I		*Equity and Liabilities*			
	1.	Shareholders' fund			
		(a) Share Capital	1	20,00,000	20,00,000
		(b) Reserves and Surplus	2	10,00,000	8,70,000
	2.	Share application money pending allotment		Nil	Nil
	3.	Non-Current Liability		Nil	Nil
	4.	Current Liabilities		6,50,000	8,00,000
		Total		36,50,000	36,70,000
II		*Assets*			
	1.	Non-current Assets			
		(a) Fixed Assets (Tangible)		16,50,000	15,00,000
		(b) Non-current Investment		7,00,000	8,00,000
	2	Current Assets			
		(a) Inventories		7,60,000	7,00,000
		(b) Trade Receivables		4,50,000	5,00,000
		(c) Cash and Cash Equivalent		6,000	74,000
		(d) Short term loan and advances (Prepaid Expenses)		84,000	96,000
				36,50,000	36,70,000

Notes to Accounts:

	1.	Share Capital		
		Equity Share Capital	20,00,000	15,00,000
		Redeemable Preference Share Capital of ₹ 100, ₹ 50 paid	Nil	5,00,000
			20,00,000	20,00,000
	2.	Reserve and Surplus		
		Balance of Profit	3,00,000	4,50,000
		General Reserve	2,00,000	4,00,000
		Capital redemption reserve	5,00,000	Nil
		Securities Premium	Nil	20,000
			10,00,000	8,70,000

Additional information:

(i) During the year the company got income from investment ₹ 80,000.

(ii) Company paid ₹ 1,50,000 as equity dividend and ₹ 76,000 as preference dividend.

(iii) The company redeemed the preference shares at a premium of 5% after making a successful call of ₹ 50 per share to make the shares fully paid.

(iv) During the year one machine was sold for ₹ 50,000 and the profit on sale of ₹ 6,000 was taken to Profit and Loss A/c. Depreciation for the year on fixed assets was ₹ 1,80,000. 9

(b) From the following information calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

(i) Date of Commercial Operation COD = 1st April 2016

(ii) Approved Opening Capital Cost as on 1st April 2016 = ₹ 20,00,000

(iii) Return of equity to be computed @ 14% p.a.

(iv) Additional Capital Expenditure (Allowed) is as follows:

Year	1	2	3	4
Amount (₹)	1,20,000	40,000	30,000	15,000

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4. Elixir Ltd. provides the following Trial Balance as on 31st March 2016:

Particulars	Dr. Balance (₹)	Cr. Balance (₹)
Equity Share Capital 300000 shares of ₹ 10 each fully paid		30,00,000
12% Bank Loan		2,00,000
Furniture	2,25,000	
Machinery	7,50,000	
Building	12,50,000	
Non-current Investment	2,00,000	
Sales		48,00,000
Sales Return	4,00,000	
Interest Received on Investment		20,000
Interest on Bank Loan	20,000	
Purchase	33,20,000	
Purchase Returns		420,000

Opening Stock	2,00,000	
Discount	6,250	
Carriage on Goods Sold	1,39,000	
Rent and Taxes	60,000	
Trade Receivables	12,00,000	
Trade Payables		80,000
Advertisement	1,20,000	
Bad Debt	10,000	
Salaries	4,00,750	
Audit Fees	27,000	
Contribution of P.F.	60,000	
Cash at Bank and in hand	1,32,000	
Total	85,20,000	85,20,000

Additional Information:

(i) Closing Stock as on 31st March 2016 was ₹ 2,12,500

(ii) Depreciation Rates: Furniture 10%; Machinery 20% and Building 10%

(iii) Outstanding salaries as on 31st March 2016 was ₹ 62,250

(iv) Trade receivables include a sum of ₹ 25,000 due from Mr. B. Reddy and trade payables include ₹ 15,000 due to him.

(v) Create a provision for doubtful debt @ 5% on trade receivables.

(vi) Provide for income tax ₹ 80,000.

Prepare a Statement of Profit and Loss for the year ended on 31st March 2016 and a Balance Sheet as on that date. 12

5. **Write short note (*any three*):** 4×3=12

(a) Recognition of Govt. grants related to specific fixed assets

(b) Sweat Equity Shares

(c) Treatment of Service Line Cum Development Charges

(d) Objective of preparing Cash Flow Statement

Section – B (Audit)

Answer Question No. 6 *and* any three *from* Question No. 7, 8, 9 *and* 10.

6. (a) Identify the correct alternative: 1×6=6

(i) Which of the following is not an audit risk?

(A) Inherent Risk

(B) Detection Risk

(C) Control Risk

(D) Omission Risk

(ii) Dividend cannot be paid out of

(A) current year's profit after providing depreciation.

(B) undistributed profits for any previous financial year or years after providing for depreciation.

(C) profit on revaluation of any fixed assets.

(D) money provided by the Central Government or a State Government.

(iii) Permanent Audit File does not contain

(A) a record of study and evaluation of internal control system.

(B) significant audit observations of earlier years.

(C) copies of management letters.

(D) analysis of significant ratios and trends.

(iv) Audit Procedures to obtain audit evidences include

(A) Compliance Procedure

(B) Substantive Procedure

(C) Both (A) and (B)

(D) Neither (A) nor (B)

(v) A Cost Auditor submits his report to

(A) Board of Directors

(B) Government

(C) Shareholders

(D) Statutory Auditor

(vi) The first Auditor of a Company shall be appointed by the Board of Directors within

(A) 30 days from the date of registration.

(B) 90 days from the date of registration.

(C) 30 days from the date of first AGM.

(D) 1 year from the date of registration.

(b) Match the following items in Column 'A' with items shown in Column 'B': 1×4=4

	Column 'A'		Column 'B'
1.	Responsibility of Joint Auditor	A.	Qualified Audit Report
2.	Unable to form an overall conclusion on Financial Statement	B.	SA 230
3.	Audit Report with reservations	C.	SA 299
4.	Audit Documentation	D.	Disclaimer of Opinion

(c) State whether the following statements are True or False: 1×4=4

(i) Audit Programme is a part of Current Audit File.

(ii) Internal audit is conducted by the staff of the entity or by an independent professional appointed for that purpose.

(iii) The first auditor of a company is appointed by the shareholders of the company at the general meeting.

(iv) A company auditor can render actuarial services to his client.

7. (a) Define 'Audit Engagement Letter'. What are the general contents of an audit engagement letter? 2+6=8

(b) 'Checklist and Internal Control Questionnaire are not the same.'—Discuss. 4

8. (a) Who are the persons not qualified for appointment as an Auditor of a company under section 141 of the Companies Act 2013? 7

(b) Mention the services that an Auditor cannot render u/s 144 of the Companies Act 2013. 5

9. (a) Distinguish between Qualified Audit Report and Adverse Report. 4

(b) Discuss the provisions of Cost Audit under Companies Act 2013. 8

10. **Write short notes (*any three*):** 4×3=12

(a) Audit of a Hospital

(b) Difference between Statutory Audit and Internal Audit

(c) Audit of Inventories

(d) Benefits offered by Joint Audit