

Paper – 12: Company Accounts and Audit

MTP_Intermediate_Syllabus 2012_Dec2015_Set 1

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL B	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
	Construct	Build up or compile	
	Prioritise	Place in order of priority or sequence for action	
	Produce	Create or bring into existence	

Paper – 12: Company Accounts and Audit

Full Marks: 100

Time Allowed: 3 Hours

This paper contains 4 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]

- (i) Anu Ltd. provides the following information. Compute basic EPS as per AS – 20.
Number of Equity shares outstanding as at beginning of the period = 5,00,000.
Bonus Issue on 1st July of current year = 3 Shares for every 1 share held.
Net Profit for current year and previous reporting period (assume calendar year) = ₹160 lakhs and ₹100 lakhs.
- (ii) Vidhata Ltd. acquired Patents on 1st April 1988 for ₹ 40 Lakhs and has not amortised the same. AS - 26 is applicable to the Company from 1st April 2003 on which date the Patents appeared in the Balance Sheet at ₹40 Lakhs. Give the accounting treatment.
- (iii) B Ltd. Purchase the assets of ₹10,80,000 from C Ltd. The consideration was payable in fully paid equity shares of ₹100 each.
- Required: Show the necessary journal entries in books of B Ltd. assuming that –
- Such shares are issued at premium of 20%
- (iv) A Company issued 1,00,000 debentures of ₹100 each redeemable at the end of 10th year, but reserves the right to redeem earlier from the end of 5th year. The company decides at the end of 5th year to redeem 25,000 debentures out of profits it has made. Pass necessary journal entries relating to redemption.
- (v) Income from Operating Activities is ₹70 lakhs;
Fixed Asset sold for ₹100 lakhs;
Machinery Sold for ₹130 lakhs;
Income from Financing Activities is ₹20 lakhs, compute the net effect on Cash Flow.
- (vi) Vikas Ltd. took over assets of ₹ 460 Lakh and liabilities of ₹ 60 Lakh of Prakash Ltd. for a purchase consideration of ₹ 440 Lakh. The Vikas Ltd. paid the purchase consideration issuing 8% Preference Share of ₹ 100 each at 10% premium. Give journal entries in the books of the Vikas Ltd.
- (vii) Discuss the term Final Audit.
- (viii) Vouch foreign travelling expenditure of a Director and list any two issues.
- (ix) List the importance of Verification.
- (x) Discuss what partial audit is.

2. (Answer any 2 questions)

- (a) Amit purchased a computer for ₹44,000 and leased out it to Sumit for four years on leases basis, after the lease period , value of the computer was estimated to be ₹ 3,000; which he realized after selling it in the second hand market. Lease amount payable at the

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beginning of each year is ₹ 22,000; ₹13,640; ₹6,820 & ₹3,410. Depreciation was charged @ 40% p.a. You are required to pass the necessary journal entries in the books of Sumit. [8]

(b) (i) In the context of relevant Accounting Standards, give your comment on the following matter for the financial year ending 31st March, 2015:

"Increase in pension liability on account of wage revision in 2014-15 is being provided for in 5 instalments commencing from that year. The remaining liability of ₹ 600 lakhs as redetermined in actuarial valuation will be provided for in the next 2 years". [4]

(ii) As at the end of a financial year, on 31st March, Vidisha Ltd. has 5,000 Shares of Face Value ₹10 each. The Stock Options outstanding at that date are for 1,000 Shares. Net Loss for the year is ₹90,000. Fair Value of the Shares on the date of grant and the Exercise Price are ₹8.10 and ₹ 6 per Share respectively. Compute the Basic and Diluted EPS. [4]

(c) (i) UK International Ltd is developing a new production process. During the Financial Year ended 31st March 2014, the total expenditure incurred was ₹50 Lakhs. This process met the criteria for recognition as an Intangible Asset on 1st December 2013. Expenditure incurred till this date was ₹22 Lakhs. Further expenditure incurred on the process for the Financial Year ending 31st March 2015 was ₹80 Lakhs. As at 31st March 2015, the Recoverable Amount of Know-how embodied in the process is estimated to be ₹72 Lakhs. This includes estimates of future cash outflows as well as inflows. Calculate the amount to be charged to Profit and Loss A/c and Carrying Value of Intangibles as on the closing date in respect of Financial Year ending - 31st March 2014 and 31st March 2015. Ignore depreciation. [4]

(ii) What are the accounting principles in respect of a Contingent Liability? [4]

3. (Answer any 2 questions)

(a) The draft balance sheet of H Ltd. as on 31.03.15: (Figures in ₹ Lakhs)

Liabilities	Amount	Assets	Amount
Equity Share Capital (in equity shares of ₹ 10 each)	4.00	Fixed Assets less depreciation to date	6.00
10% Preference Share Capital	3.00	Stock and debtors	5.30
General Reserve	1.00	Cash and Bank	0.70
Profit & Loss Account	1.00		
Creditors	3.00		
	12.00		12.00

M Ltd. another existing company holds 25% of equity Share capital of H Ltd. purchased at ₹10 per share.

It was agreed that M. Ltd. should take over the entire undertaking of H Ltd. on 30.9.15 on which date the position of Current assets (except cash and bank balances) and creditors was as follows.

Stock and debtors	4 lakhs
Creditors	2 lakhs

Profits earned for half year ended 30.9.15 by H Ltd. was ₹ 90,000 after charging depreciation of ₹ 32,500 on fixed assets. H Ltd. declared 10% dividend for 2014-15 on 30.8.15 and the same was paid within a week.

Goodwill of H Ltd. was valued at ₹ 80,000 and block assets were valued at 10% over their book value as on 31.3.15 for purposes of take over. Preference shareholders of H Ltd. will be

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allotted 10% preference shares of ₹ 10 each by M Ltd. Equity share holders of H Ltd. will receive requisite number of equity shares of ₹ 10 each from M Ltd. valued at ₹ 10 per share.

- Compute the purchase consideration.
- Explain, how the Capital reserve or goodwill, if any, will appear in the balance sheet of M Ltd. after absorption. **[16]**

(b) (i) TQM Ltd. group has three divisions T, Q, M. details of their turnover, results and net assets are given below:

	(₹ in lakhs)
Division T	
Sale to Q	3,050
Other sales (Home)	60
Export sales	4,090
	7,200
Division Q	
Sale to M	30
Export sales to Europe	200
	230
Division M	
Export sales to America	180

	Head Office	Division		
		T	Q	M
	(₹ in lakhs)	(₹ in lakhs)	(₹ in lakhs)	(₹ in lakhs)
Operating Profit or loss before tax		160	20	(8)
Re-allocated cost from Head Office		48	24	24
Interest cost		4	5	1
Fixed assets	50	200	40	120
Net current assets	48	120	40	90
Long-term liabilities	38	20	10	120

Prepare a Segmental Report for publication in TQM Ltd. Group. **[10]**

(ii) The BBK Co. Ltd. resolved by a special resolution to buy – back 1,50,000 of its equity shares of the face value of ₹10 each on which ₹8 has been paid up. The general reserve balance of the company stood at ₹40,00,000 and no fresh issue of shares was made. Journalize the transactions. **[6]**

(c) (i) Following information relates to Ping-Pong Ltd. State under which heads these items will appear in the Balance Sheet as per Schedule III ?

- 2,00,000 8% Preference Share of ₹100 each.
- Investment of ₹45,00,000 in 40,000 12% Debenture of ₹100 each of Amrit Ltd.
- License of ₹18,00,000 for Mining Right.
- Provision for taxation of ₹88,000. **[4]**

(ii) Banana Ltd. has furnished that the net profit before tax and managing director's remunerations is ₹5,85,60,000, after adjusting the Depreciation as per books of ₹71,00,000 (Depreciation as per schedule II is ₹80,00,000), provision for doubtful debts of ₹80,000. The managing director's remuneration is at 5% of Net Profit as per law subject to maximum of ₹2,40,000 p.a. Compute the Managing Director's remuneration. **[6]**

(iii) Discuss the three types of Cash Flows in the context of AS - 3. **[6]**

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4. (Answer any 2 questions)

- (a) (i)** Difference between Statutory Audit and Government Audit. **[6]**
- (ii)** Write a note on — Adverse or Negative Audit Report. **[4]**
- (iii)** "Teeming & Leading is a commonly followed method of misappropriation of cash" — Discuss. **[6]**
- (b)(i)** State the meaning of Continuous Audit and the advantages of Continuous Audit. **[3+5=8]**
- (ii)** Discuss the types of analysis that are covered by analytical procedures. **[5]**
- (iii)** Discuss the features of Internal Audit. **[3]**
- (c) (i)** Discuss the reasons for conducting Information Systems Audit. **[6]**
- (ii)** List the areas to be covered while auditing the payment for acquisition of an asset. **[4]**
- (iii)** Write a note on Internal Audit Documentation as per Standards on Internal Audit (SIA) – 3. **[6]**