

## **Paper – 12: Company Accounts and Audit**

## MTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 2

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

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL B</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) Profit before VRS payments but after depreciation is ₹75 crore, Depreciation is ₹10 crore, VRS payments is ₹32.10 crore, Provision for taxation is ₹10 crore, and Paid up share capital (Shares of ₹10 each fully paid) is ₹93 cr. From the above information calculate Earnings per Shares (EPS).
- (ii) The liquidator of company is entitled to a remuneration of 2% on Assets realised, and 3% on the amount distributed to unsecured creditors. The Assets realised ₹10,00,000. Amount to Unsecured Creditors before paying Liquidators Remuneration is ₹4,12,000. Calculate total Liquidator Remuneration.
- (iii) Distinguish between Monetary items and Non Monetary items.
- (iv) Distinguish between Amalgamation and Acquisition.
- (v) Pankaj Ltd had issued 30,000, 15% Convertible Debentures of ₹100 each on 1<sup>st</sup> April 2011. The debentures are due for redemption on 1<sup>st</sup> March 2014. The terms of issue of Debentures provided that they were redeemable at a premium of 5% and also conferred option to the Debenture holders to convert 20% of their holding into Equity Shares (Nominal Value of ₹10) at a price of ₹15 per share. Debenture holders holding 2,500 Debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.
- (vi) Explain the two methods which are used for reporting cash flows from Operating Activities.
- (vii) Distinguish between Audit and Investigation.
- (viii) State the usefulness of cost data to the Company.
- (ix) State the powers of Audit Committee.
- (x) Discuss — the term "Independent Financial Audit".

### 2. (Answer any 2 questions)

- (a) Margabandhu Ltd acquired a machine on 2nd April 2011 costing USD 2,00,000. The Suppliers agreed to the following terms of payment: On 2nd April 2011 - 50% down payment, on 3rd April 2012 - 25% and on 2nd April 2013 - 25%.

The Company depreciates Machinery at 10% on SLM Basis. Assume Exchange Rates on various dates of payment as -

2 <sup>nd</sup> April 2011 – ₹48.80,	31 <sup>st</sup> March 2012 – ₹47.50
3 <sup>rd</sup> April 2012 – ₹47.41	31 <sup>st</sup> March 2013 – ₹51.16
2 <sup>nd</sup> April 2013 – ₹51.77	31 <sup>st</sup> March 2014 – ₹54.39

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Show the extracts of relevant entries in the P&L A/c for the year ending 31st March 2012, 2013 and 2014 and the Balance Sheet on that date, showing necessary workings. **8**

**(b) (i)**

The fair value of plan assets at the beginning and end of the year were ₹3,000 and ₹3,286 respectively. The employer's contribution to the plan during the year as ₹310. Benefit payments to retirees were ₹360. Calculate the actual return on plan assets. **2**

**(b) (ii)** A company follows a policy of refunding money to the dissatisfied customers if they claim within 15 days from the date of purchase and return the goods. It appears from the past experience that in a month only 0.20% of the customers claim refunds. The company sold goods amounting to ₹25 lakhs during the last month of the financial year. Is there any contingency? **2**

**(b) (iii)** Pankaj Limited has taken machinery on lease from Bhagwan Ltd. The information is as under:

Lease Term	4 years
Fair Value at inception of lease	₹20,00,000
Lease Rent	₹ 6,25,000 p.a. at the end of year
Guaranteed Residual Value	₹1,25,000
Expected Residual Value	₹3,75,000
Implicit Interest Rate	15%

Discount Rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively. Calculate the Value of the Lease Liability as per AS – 19. **4**

**(c) (i)** Amit Ltd got a license to manufacture certain medicines for 10 years at a License Fee of ₹200 Lakhs. Given below is the pattern of expected production and expected Operating Cash Inflow:

Year	Production in Bottles (in Lakhs)	Net Operating Cash Flow (₹ in Lakhs)
1	300	900
2	600	1,800
3	650	2,300
4 to 10	800 p.a.	3,200 p.a.

Net Operating Cash Flow has increased for third year because of better inventory management and handling method. Suggest the amortization method. **5**

**(c) (ii)** Kishor set up a new factory in the backward area and purchased Plant for ₹500 Lakhs for the purpose. Purchases were entitled for the CENVAT Credit of ₹10 Lakhs and also the Government agreed to extend 20% Subsidy for Backward Area Development. Determine the Depreciable Value of the Asset. **3**

**3. (Answer any 2 questions)**

**(a)** The following are the Balance Sheets of Mahima Ltd and Nithya Ltd, as at 31st March - (₹ in Lakhs)

Liabilities	Mahima	Nithya	Assets	Mahima	Nithya
Share Capital:			Plant and Machinery	4,215	468
Fully paid Equity Shares of ₹10 each	3,600	900	Furniture and Fixtures	2,400	183
10% Pref. Shares of ₹10 each, fully paid up	1,200	Nil	Motor Vehicles	Nil	51
Capital Reserve	600	Nil	Stock	2,370	444

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General Reserve	2,100	Nil	Sundry Debtors	1,044	237
Profit and Loss Account	780	Nil	Cash at Bank	1,542	240
8% Redeemable Debentures of ₹1,000 each	Nil	300	Preliminary Expenses	Nil	33
Trade Creditors	2,421	369	Discount on Issue of Debentures	Nil	6
Provisions	870	93			
<b>Total</b>	<b>11,571</b>	<b>1,662</b>	<b>Total</b>	<b>11,571</b>	<b>1,662</b>

A new Company Sona Ltd was got incorporated with an Authorised Capital of ₹15,000 Lakhs divided into Shares of ₹10 each. In an amalgamation in the nature of Merger, Mahima Ltd & Nithya Ltd were merged into Sona Ltd on the following terms-

- (a) Purchase Consideration for Mahima Ltd's business is to be discharged by issue of 120 Lakhs fully paid 11% Preference Shares and 720 Lakhs fully paid Equity Shares of Sona Ltd to the Preference and Equity Shareholders of Mahima Ltd in full satisfaction of their claims.
- (b) To discharge Purchase Consideration for Nithya Ltd's business, Sona Ltd to allot 90 Lakhs fully paid up Equity Shares to Shareholders of Nithya Ltd in full satisfaction of their claims.
- (c) Expenses on the liquidation of Mahima Ltd and Nithya Ltd amounting to ₹6 Lakhs are to be borne by Sona Ltd.
- (d) 8% Redeemable Debentures of Nithya Ltd to be converted into 8.5% Redeemable Debentures of Sona Ltd.
- (e) Expenses on Incorporation of Sona Ltd were ₹15 Lakhs.

You are required to -

- (a) Pass necessary Journal Entries in the books of Sona Ltd to record above transactions, and
- (b) Prepare Balance Sheet of Sona Ltd after Merger. **16**

### (b)(i)

On 1st April 2014 H Ltd. issued 442, 10% Debentures of ₹ 1000 each at a discount of 10% redeemable at a premium of 5% after 4 years. It was decided to create a Sinking Fund for the purposes of accumulating sufficient funds to redeem the Debentures and to invest in some readily convertible securities yielding 10% interest p.a. Reference to the table shows that ₹ 1.00 p.a. at 10% compound interest amounts to ₹ 4.641 in 4 years. Investments are to be made in the Bonds of ₹ 1000 each available at par.

On 31<sup>st</sup> March 2018, the investments realised ₹3,40,000 and debentures were redeemed. The bank balance as on that date was ₹50,000.

Prepare Debenture Redemption Fund Investments Account for 4 years. **8**

### (b)(ii)

Following details are given for Akash Ltd. for the year 31<sup>st</sup> March, 2015:

	(Amt. ₹ in lakhs)	
Sales:		
Food products	5,650	
Plastic and Packaging	625	
Health and Scientific	345	
other	162	6,782
Expenses:		
Food products	3,335	
Plastic and Packaging	425	

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Health and Scientific other	222 200	4,182
Other Items: General corporate Expenses Income from investments Interest expenses		562 132 65
Identifiable assets: Food products Plastic and Packaging Health and Scientific other	7,320 1,320 1,050 665	10,355
General Corporate Assets		722

Other Information:

(a) Inter-segment sales are as below:	(Amt. ₹ in lakhs)
Food products	55
Plastic and Packaging	72
Health and Scientific	21
other	7

(b) Operating profit includes ₹ 33 lakhs on inter-segment sales.

(c) Information about inter-segment expenses are not available.

You are required to prepare a statement showing financial information about Akash Ltd.'s operations in different industry segments. 8

(c) The summarized balance Sheets of Jyoti Ltd. are as follows: (₹ 000's)

Liabilities	31.3.2015	31.3.2014	Assets	31.3.2015	31.3.2014
Share Capital	1,000	800	Buildings	1,096	1,100
Securities Premium Account	400	300	Plant and Machinery (Cost Less		
Revenue Reserves	929	619	Accumulated Depreciation)	726	732
Bank Loan	-	250	Stock	537	365
Trade Creditors	184	158	Trade Debtors	413	236
Other Creditors (Fixed Assets)	-	50	Prepayments (Expenses)	19	22
Accrued Expenses	35	25	Cash at Bank	212	35
Taxation	395	243			
Proposed Dividend	60	45			
Total	3,003	2,490	Total	3,003	2,490

Profit & Loss Account for the year ended 31<sup>st</sup> March 2015 (₹ in 000's)

Particulars		₹	₹
	Turnover		2,960
Add:	Opening Stock	365	
	Purchases	2,073	
		2,438	
Less:	Closing Stock	(537)	
	Cost of Sales		1,901
	GROSS PROFIT		1,059
Less:	Distribution costs and Administrative Expenses		(197)

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	Depreciation – Buildings - Plant and Machinery	4 65	(69)
Add:	Profit on Sale of Plant (Proceeds 128 less Net Book Value of Plant sold 121)		793
	Profit Before tax		7
Less:	Tax Expense		800
	Profit after tax		(395)
Less:	Dividends - Paid	35	405
	- Proposed	60	(95)
	RETAINED PROFIT ADDED TO RESERVES		310

The following information is also available:

(₹ in 000's)

### Cash Account

Particulars	₹	Particulars	₹
Balance as on 01.04.2014	35	Payments to Suppliers	2,047
Collection from Debtors	2,783	Payments for Fixed Assets	230
Issue of shares	300	Payments for Overheads	115
Sale of Fixed Assets	128	Wages and Salaries	69
		Taxation	243
		Dividends	80
		Repayments of Bank Loan	250
		Balance as at 31.03.2015	212
<b>Total</b>	<b>3,246</b>	<b>Total</b>	<b>3,246</b>

### Debtors Control Account

Particulars	₹	Particulars	₹
Balance as on 01.04.2014	236	Cash received from Debtors	2,783
Sale / Turnover	2,960	Balance as on 31.03.2015	413
<b>Total</b>	<b>3,196</b>	<b>Total</b>	<b>3,196</b>

### Creditors Control Account

Particulars	₹	Particulars	₹
Cash paid to Creditors	2,047	Balance as on 31.04.2014	158
Balance as on 31.03. 2015	184	purchase	2,073
<b>Total</b>	<b>2,231</b>	<b>Total</b>	<b>2,231</b>

### Other Creditors (Fixed Assets) Account

Particulars	₹	Particulars	₹
Cash paid	230	Balance as on 31.04.2014	50
		Additions to Fixed Assets	180
<b>Total</b>	<b>230</b>	<b>Total</b>	<b>230</b>

### Taxation Account

Particulars	₹	Particulars	₹
Tax paid during the year	243	Balance as on 01.04.2014	243
Balance as on 31.03.2015	395	Tax Expense during the year	395
<b>Total</b>	<b>638</b>	<b>Total</b>	<b>638</b>

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Distribution Cost & Admin. Expenses Control	₹	Plant and Machinery	₹
Expenses charged to Profit and Loss A/c	197	Net Book Value as at 1.04.2014	732
Add: Accrued Expenses at the beginning of the year	25	Add: Additions during the year	180
Add: Pre-Payments at the end of the year	19	Less: Depreciation charge for the year	(65)
Less: Accrued Expenses at the end of the year	(35)	Net Book Value as at 31.3.2015	726
Less: Pre-Payments at the beginning of the year	(22)		
Cash Paid for Overheads and to Employees	184		

From the above information, prepare cash Flow Statement using both Direct and Indirect Method. **16**

#### 4. (Answer any 2 questions)

- (a)(i)** What are the basic Principles governing an Audit. **8**
- (a)(ii)** List down the steps required for an Audit of Hospital. **8**
- (b)(i)** Write a Short Note on Cut off Procedures. **4**
- (b)(ii)** Verify the procedure of allowing Retirement Gratuity to Employees. **4**
- (b)(iii)** "Auditor not to render certain services" – Mention any four such kind of services. **4**
- (b)(iv)** Write a note on social Audit. **4**
- (c)(i)** Distinguish between Clean report and Qualified report. **6**
- (c)(ii)** Write a note on – Audit Certificate. **4**
- (c)(iii)** Discuss different types of Risk (i) Inherent Risk (ii) Control Risk (iii) Detection Risk. **6**