

Paper 12- Company Accounts & Audit

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Full Marks: 100

Time allowed: 3 hours

Section – A

I. Answer all the following questions.

1. Answer the following questions:

[5x2=10]

- (i) A Company has its Share Capital divided into Equity Shares of ₹10 each. On 01.10.2013, it granted 20,000 Employees' Stock Option at ₹ 50 per Share, when Market Price was ₹ 120 per share. The Options were to be exercised between 10.12.2013 and 31.03.2014. Employees exercised their options for ₹16,000 Shares only, and the remaining options lapsed. The Company closes its books on 31st March every year. Show Journal Entry (with narration) as would appear in the Company's books upto 31.03.2014.
- (ii) Differentiate between Reporting Currency and Foreign Currency.
- (iii) Prafullya Ltd. issued 80,000 shares. Issued is underwritten by P,Q, and R in the ration of 5:3:2 respectively. Unmarked applications totaled 4,000 whereas Marked Applications are : P – 32,000 shares, Q – 11,400 shares and R – 16,600 shares.

Calculate the Gross Liability of each of the Underwriters.

- (iv) State the disclosure requirement under schedule III of the following items:
- Debit balance of Profit & Loss account
 - Unsecured Bank loan
- (v) Foreign currency creditors at the end of the financial year are USD 10 Lakhs. Purchase were recorded at the exchange rate USD 1 = ₹52. On the balance sheet date, the exchange rate is USD 1 = ₹54 which is not expected to be payable on the payment date. It has been estimated that around the payment time, the exchange rate will possibly be in the range of USD 1 - ₹55.00 to ₹56.50. At what value should the creditors be recorded in the balance sheet? What is the treatment of foreign exchange loss?

2. Matching the following:

[5x1=5]

	Column 'A'		Column 'B'
1.	Balance of Forfeited Shares A/c	A.	Dividend Unpaid
2.	Contingent Liability	B.	Accounting for Government Grants
3.	AS – 12	C.	Segment Reporting
4.	Current liability	D.	Notes to Accounts
5.	AS – 17	E.	Capital Reserve

3. Answer the following questions:

[5x2=10]

- (i) What is the purpose of audit?
- (ii) Re-appointment of an auditor – Comment.
- (iii) List the advantages of Balance Sheet Audit.
- (iv) List the objectives and functions of Auditing and Assurance Standard Board.
- (v) What is vouching?

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Section – B

II. Answer any three questions out of the following:

[3×15=45]

4. (a) Alpha Ltd issued a prospectus inviting applications for 2,000 shares of ₹ 10 each at a premium of ₹ 2 per share, payable as follows:

On Application ₹ 2, On Allotment ₹ 5 (including premium)
On First Call ₹ 3, On Second & Final Call ₹ 2

Applications were received for 3,000 shares and pro rata allotment was made on the applications for 2,400 shares. It was decided to utilise excess application money towards the amount due on allotment.

Mohit, to whom 40 shares allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited.

Jagat, the holder of 60 shares failed to pay the two calls and on his such failure, his shares were forfeited. Of the shares forfeited, 80 shares were sold to Rishav credited as fully paid for ₹ 9 per share, the whole of Mohit's shares being included. [12]

Required: Give Journal Entries to record the above transactions (including cash transactions)

- (b) Brief the disclosure requirements as per AS – 11 .

[3]

5. (a) 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. [8]

- (b) Sonic Ltd. incorporated on 1st June, 2015 issued a prospectus inviting applications for 10,00,000 equity shares of ₹10 each. The whole issue was fully underwritten by four underwriters:

	S	T	U	V
Underwriter	4,00,000 shares	3,00,000 shares	2,00,000 shares	1,00,000 shares

Applications were received for 9,00,000 shares of which marked applications were as follows:

	S	T	U	V
Underwriter	4,40,000 shares	1,80,000 shares	2,20,000 shares	20,000 shares

Find out the liability of each underwriter individually.

[7]

6. (a) From the following information, prepare the relevant Notes to Accounts:

₹ lakhs

Sundry Creditors	40.00
Bills Payables	20.00
Bank Overdraft	10.00
Unpaid Dividend	3.00
Outstanding Expenses	3.00
Calls-in-Advance	2.00
Provision for Tax	200.00

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[6]

- (b) Tarun Ltd. has taken an asset on lease from Barun Ltd for a period of 3 years. Annual Lease rental are ₹8 lakhs payable at the end of every year. The residual value guaranteed by Tarun is ₹3 lakhs whereas Barun expects the estimated salvage value to be ₹6 lakhs at the end of the lease term. If the fair value of the asset at the lease inception is ₹15 lakhs and the interest rate implicit in the lease is 18%, compute the Net Investment in the lease from the viewpoint of Barun Ltd and the annual finance income. [9]

7. Following are the summarized Balance Sheets of Poova Limited and Pouru Limited as at 31st March, 2015:

(₹ in lakhs)					
Liabilities	Poova Ltd.	Pouru Ltd.	Assets	Poova Ltd.	Pouru Ltd.
Share capital:			Goodwill	40	---
Equity shares of ₹ 100 each	3,000	2,000	Other fixed assets	3,200	1,520
9% Preference shares of ₹ 100 each	1,000	800	Trade receivables	1,250	880
General reserve	250	340	Inventory	660	1,360
Profit and loss account	---	30	Cash at bank	52	260
12% Debentures of ₹100 each	1,000	400	Own debenture (₹ 100 each) (Nominal value ₹ 40,00,000)	38	---
Trade payables	810	450	Discount on issue of debentures	6	---
			Profit and loss account	814	---
	6,060	4,020		6,060	4,020

On 1.4.2015, Poova Ltd. adopted the following scheme of reconstruction:

- a. Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be sacrificed to the Company.
- b. Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.
- c. Own debentures of ₹ 25,00,000 were sold at ₹ 98 per debenture cum-interest and remaining own debentures were cancelled.
- d. Debenture holders of ₹ 4.8 crores agreed to accept one machinery of book value of ₹ 5 crores in full settlement.
- e. Trade payables, trade receivables and inventory were valued at ₹ 7 crores; ₹ 11 crores and ₹ 5.90 crores respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.
- f. The Company paid ₹ 4 lakhs as penalty to avoid capital commitments of ₹ 30 lakhs.

On 2.4.2015 a scheme of absorption was adopted. Poova Ltd. would take over Pouru Ltd. The purchase consideration was fixed as below:

- (a) Equity shareholders of Pouru Ltd. will be given 50 equity shares of ₹ 10 each fully paid up, in exchange for every 5 shares held in Pouru Ltd.
- (b) Issue of 9% preference shares of ₹ 100 each in the ratio of 4 preference shares of Poova Ltd. for every 5 preference shares held in Pouru Ltd.
- (c) Issue of one 12% debenture of ₹ 100 each of Poova Ltd. for every 12% debentures in Pouru Ltd.

You are required to give Journal entries in the books of Poova Ltd.

[15]

Section – C

III. Answer any two questions out of the following four questions

[2×15=30]

8. (a) "Some material mis-statements remain unreported by Auditors."— Comment. [7]
 (b) How would you determine the materiality of an item, while conducting audit. [8]

9. (a) Mr. Raghav, who is a chartered accountant, wants to conduct the audit of Ram-Shyam Limited. State the disqualifications that would make him ineligible for the post. [10]
- (b) What types of analysis are covered by analytical procedures? [5]
10. (a) What are the matters to be specially considered while conducting the audit of a Partnership firm? [9]
- (b) State the objectives of cost audit from the point of view of Government. [6]