# Paper – 12: Company Accounts and Audit

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<br><br>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<br><br>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 |
| | | Identity | Recognize, establish or select after consideration |
| | | Illustrate | Use an example to describe or explain something |
| | APPLICATION<br><br>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<br><br>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]**

**(a)** The carrying amount of an asset given on sale and leaseback that results in an operating lease is ₹20,000. The fair value and the selling price of the asset at inception of the lease is ₹18,000. Give the accounting treatment in the books.

**(b)** Explain the disclosure requirement of Intangible assets under development.

**(c)** R Ltd. furnished the following particulars on 01.01.2011, from which you are asked to ascertain the basic EPS:

R Ltd. issued 2,00,000 equity shares of ₹ 10 each, fully paid ₹ 20,00,000. Issue of right share among existing shareholders: one for one of ₹ 25 each on 1.7.2012.On 31.12.2011 the basic reported EPS was ₹ 2.50 and market price of the share prior to right issue was ₹ 40. Net Profit (After Tax) for 2011 ₹ 2,50,000 for 2012 ₹ 3,00,000.

**(d)** 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?

**(e)** The share capital of M Ltd. consists of 1,00,000 equity shares of ₹10 each, and 25,000 preference shares of ₹100 each, fully called up. Besides, its securities premium account shows a balance of ₹40,000 and general reserve of ₹7,00,000. The company decides to buy-back 30,000 equity shares of ₹12 each. For this purpose, it utilises the securities premium in full and general reserve to the extent necessary.

Pass the necessary journal entries only showing the effects on the securities premium account and the general reserve account.

**(f)** Journalise the following transaction:

FD Ltd. issued 24,000 shares of ₹100 each credited as fully paid to the promoters for their services.

**(g)** List the uses of Interim Audit.

**(h)** Discuss the necessity of Continuous Audit.

**(i)** As per section 139 of Companies Act, 2013 an auditor shall furnish a certificate and consent — discuss.

**(j)** State what is Efficiency Audit?

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

**(a)** H Ltd. sold machinery having WDV of ₹ 400 Lakhs to B Ltd. for ₹ 500 Lakhs and the same machinery was leased back by B Ltd. to H Ltd. The Lease back is operating lease. [8]

Comment if –

(i) Sale price of ₹ 500 lakhs is equal to fair value
(ii) Fair value is ₹ 600 lakhs
(iii) Fair value is ₹ 450 lakhs and sale price is ₹ 380 lakhs
(iv) Fair value is ₹ 400 lakhs and sale price is ₹ 500 lakhs
(v) Fair value is ₹ 460 lakhs and sale price is ₹ 500 lakhs
(vi) Fair value is ₹ 350 lakhs and sale price is ₹ 390 lakhs

**(b) (i)** An Enterprise discontinues a business segment and employees of the discontinued segment will earn no further benefits. This is a curtailment without a settlement. Using current actuarial assumptions (including current market interest rates and other current market prices) immediately before the curtailment, the enterprise has a Defined Benefit Obligation with a Net Present Value of ₹1,000 and Plan Assets with a Fair Value of ₹820 and unrecognised Past Service Cost of ₹ 50. The Enterprise had first adopted this statement one year before. This increased the Net Liability by ₹100, which the Enterprise chose to recognize over five years. The curtailment reduces the Net Present Value of the obligation by ₹ 100, to ₹ 900. How will the Enterprise recognize this curtailment under AS -15. **[6]**

**(ii)** Define Government Grants. **[2]**

**(c) (i)** Discuss the use of the General Purpose Financial Statement. **[4]**

**(ii)** Explain the accounting treatment of Internally Generated Goodwill. **[4]**

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

**(a) (i)** Q Ltd. grants 1,000 options to its employees on 01.04.2011 at ₹60. The vesting period is two and a half years. The maximum period is one year. Market price on that date is ₹90. All the options were exercised on 31.07.2014. Journalize, if the face value of equity share is ₹10 per share. **[9]**

**(ii)** Discuss the disclosure requirement of debit balance in the Statement of Profit and Loss and in Reserve and Surplus under Revised Schedule III. **[3]**

**(iii)** Discuss "Cash and Cash Equivalents". **[4]**

**(b) (i)** M Ltd. has the following business/geographical segments.

Examine which of these are reportable Segments under AS - 17.

(Information in ₹000's)

| Segments | Revenue | Profit/ (Loss) | Assets |
|---|---|---|---|

| | | | |
|---|---|---|---|
| A | 9,600 | 1,750 | 4,100 |
| B | 300 | 180 | 450 |
| C | 100 | 70 | 450 |

**[8]**

**(ii)** The Balance Sheet of Palak Ltd. as on 31st December was as follows:

| EQUITY & LIABILITIES | ₹ |
|---|---|
| Shareholders' funds | |
| Share Capital: | |
| 16,000 Preference shares of ₹10 each 1,60,000 | |
| 24,000 Equity shares of ₹10 each 2,40,000 | 4,00,000 |
| Reserves and Surplus – P/L A/c | (1,16,000) |
| Non- current liabilities | |
| Bank Loan | 8,00,000 |
| 8% Debentures | 2,00,000 |
| Current liabilities | |
| Trade payables | |
| Sundry Creditors | 4,00,000 |
| Other current liabilities | |
| Interest Outstanding on Debentures | 16,000 |
| Total | 17,00,000 |
| ASSETS | |
| Non-current assets | |
| Fixed Assets | |
| Land and Building | 50,000 |
| Other Fixed Assets | 4,00,000 |
| Current assets | |
| Inventories — Stock | 10,50,000 |
| Trade Receivables — Debtors | 2,00,000 |
| Total | 17,00,000 |

The company went into liquidation on that date. Prepare Liquidator's Statement of Account after taking into account the following:

- Liquidation Expenses and Liquidator's Remuneration amounted to ₹6,000 and ₹20,000 respectively.
- Bank Loan was secured by pledge of stock.
- Debenture and Interest thereon are secured by a floating charge on all assets.
- Fixed assets were realized at book value, and current assets at 80% of book values. **[6]**

**(iii)** On April 1, 2014 PT Ltd. issued 25,00,000 12% fully convertible debentures of ₹ 100 each at par. The debenture holders were given the call option to convert the debentures into ₹ 10 equity shares at a premium of ₹ 40 per share on or after July 1, 2018. On April 1, 2019, debenture holders holding 10,00,000 debentures exercised their option. Pass the necessary journal entries. **[2]**

**(c)** M & N have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called MN Ltd. following is the Balance Sheet of M & N as at 31st march:

(in ₹)

| Liabilities | M | N | Assets | M | N |
|---|---|---|---|---|---|
| Capital | 7,75,000 | 8,85,000 | Plant & Machinery | 4,85,000 | 6,14,000 |
| Current liabilities | 6,23,500 | 5,57,600 | Building | 7,50,000 | 6,40,000 |
| | | | Current Assets | 1,63,500 | 1,58,600 |
| | 13,98,500 | 14,12,600 | | 13,98,500 | 14,12,600 |

Following are the additional information:

(i) Liabilities of M include ₹ 50,000 due to N for purchases made. N made a profit of 20% on sale to M.

(ii) M has goods purchased from N, cost to N being ₹ 10,000. This is included in the Current Assets of M as on 31st March.

(iii) The assets of M and N are revalued as under:

| Particulars | M | N |
|---|---|---|
| Plant & Machinery | 5,25,000 | 6,75,000 |
| Building | 7,75,000 | 6,48,000 |

(iv) The Purchase Consideration is to be discharged as under:

- Issue 24,000 Equity Shares of ₹ 25 each fully paid, up in proportion of the profitability in the preceding 2 years, which are given below:

| Particulars | M | N |
|---|---|---|
| 1st Year | 2,62,800 | 2,75,125 |
| 2nd Year | 2,12,200 | 2,49,875 |
| Total | 4,75,000 | 5,25,000 |

- Issue 12% Preference Shares of ₹ 10 each at per, to provide Income equivalent to 8% Return on Capital Employed in the business as on 31st March, after revaluation of assets of M & N respectively.

You are required to:

A. Compute the amount of Equity and Preference Shares issued to M & N.

B. Prepare the Balance Sheet of MN Ltd immediately after amalgamation. **[16]**

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

**(a) (i)** What factors should be considered while analytical procedures are performed as substantive procedures? **[6]**

**(ii)** What are the essential features of a good Internal Audit Report? **[10]**

**(b) (i)** List the services that an auditor shall not render as per section 144 of the Companies Act,2013. **[8]**

**(ii)** Discuss the procedure of redemption of debentures and the duties of an auditor in relation to redemption of debentures. **[5]**

**(iii)** State what is internal Control Questionnaire? **[3]**

**(c) (i)** 'The type of internal control system to be employed in an organization depends upon the requirements and nature of the business.' Discuss the different types of Internal Controls. **[6]**

**(ii)** Discuss cut off procedure. Explain its significance in the context of Auditing. **[4]**

**(iii)** Verify the procedure of allowing Retirement Gratuity to Employees. **[6]**