

Paper 12- Company Accounts & Audit

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Full Marks: 100

Time allowed: 3 hours

Section – A (Company Accounts)

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

1. (a) Choose the correct answer from the given four alternatives: [6x1=6]
- (i) A _____ is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Statement.
- (a) Reportable Segment
 - (b) geographical segment
 - (c) Business Segment
 - (d) None of the above
- (ii) Issue of Application Forms for Securities is covered under section _____ of Companies Act,2013
- (a) Sec 53
 - (b) Sec 63
 - (c) Sec 39
 - (d) Sec 33
- (iii) Before entering into an agreement with the company, the underwriters assess which of the following?
- (a) worth of the public issue
 - (b) Market response to the issue
 - (c) Own ability of the issue to get the issue fully subscribed
 - (d) All of the above
- (iv) There are several principles governing insurance business, which are _____.
- (a) Principle of warranty
 - (b) Principle of uberrimae fidei
 - (c) Insurable interest
 - (d) Both (b) and (c)
- (v) As per AS 11, _____ is the currency of the primary economic environment in which the entity operates.
- (a) Functional currency
 - (b) Foreign currency
 - (c) Exchange rate
 - (d) Reporting currency
- (vi) Cash receipts from disposal of shares, warrants or debt instruments of other enterprises will be classified as Cash Flow from _____ activity.
- (a) Investment
 - (b) Operating
 - (c) Financing

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(d) Both A and B

(b) Match the following:

[4×1=4]

	Column 'A'		Column 'B'
1.	Section 70	A.	An issuance of stock following a company's Initial Public Offer
2.	Section 55	B.	created out of profits for the purpose of redemption of debentures
3.	DRR	C.	Prohibition for Buy-Back in Certain Circumstances
4.	Follow on public offer	D.	Issue and Redemption of Preference Shares

(c) State whether the following statements are True (or) False.

[4×1=4]

- (i) Service Line cum Development Charges can be accounted for as Reserves and disclosed under the head Reserves and Surplus without transferring any proportionate amount to Income Statement during the expected life of the Asset.
- (ii) Initial Public Offer is made when company seeks to raise capital via public investment while Follow on Public Offer is subsequent public contribution.;
- (iii) Free Reserves mean such reserves which, as per the latest audited balance sheet of a company, are restricted to be distributed as dividend.
- (iv) Post-employment benefits (other than termination benefits and short-term employee benefits) payable after the completion of employment.

Answer any three questions out of the following four questions

[3×12=36]

2. (a) Give journal entries for the following:

The following is the Balance Sheet of X Ltd. as on 31.03.2022

Particulars	Note No.	₹
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share Capital	1	6,00,000
(b) Reserves and Surplus	2	5,25,000
2. Non-Current Liabilities		
Long-term borrowings	3	13,25,000
Total		24,50,000
II. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment		
Tangible Assets		11,50,000
(b) Non-Current Investment		2,00,000
2. Current Assets		11,00,000
Total		24,50,000

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Notes to Balance Sheet (includes)

Particulars	₹
1. Share Capital:	
Subscribed :	
Subscribed and Fully paid-up	
6% Preference Share of ₹ 100 each	1,50,000
Equity shares of ₹ 10 each	4,50,000
	6,00,000
2. Reserves and Surplus	
Securities Premium	1,25,000
General Reserve	2,50,000
Balance in Statement of Profit and Loss	1,50,000
	5,25,000
3. Long-term borrowings	
10% Debentures (unsecured)	9,00,000
Bank Loan (Secured)	4,25,000
	13,25,000

On April 1, 2022, the company bought –back its equity shares to the maximum extent permitted by Companies Act, 2013, at the current market price of ₹ 30 per shares.

Show the necessary journal entries in the books of the company.

[8]

- (b) On 1st April 2019 VV Limited received Government Grant of ₹750 lakhs for acquisition of a machinery costing ₹3,750 lacs.

The grant was credited to the cost of the asset.

The life of the machinery is 5 years.

The machinery is depreciated at 20% on written down value basis.

The company had to refund the grant in May 2022 due to non-fulfillment of certain conditions.

How you would deal with the refund of grant in the books of Hero Limited.

[4]

3. (a) The life insurance fund of PP Life Insurance Co. Ltd. was ₹17,00,000 on 31st March, 2022. Its actuarial valuation on 31st March, 2022 disclosed a net liability of ₹14,40,000. An interim bonus of ₹20,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward ₹55,000 and to divide the balance between the policyholders and the shareholders.

Show –

- (i) the Valuation Balance Sheet,
- (ii) the net profit for the two-year period, and
- (iii) the distribution of the profits.

[2+2+3=7]

- (b) The books of a bank include a loan of ₹5,00,000 advanced on 30.09.2021, interest changeable @ 16% p.a. compounded quarterly. The security for the loan being 7,000 shares of ₹100 each in a public limited company valued @ ₹90 each. There is no repayment till 31.12.2022. On 31.12.2022, the value of shares declined to ₹80 per share. How would you classify the loan as secured or unsecured in the Balance Sheet?

[5]

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4. APC Ltd. provides the following Trial Balance as on 31st March 2023:

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		4,20,000
Opening Stock	2,00,000	
Discount Allowed	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:

- Closing Stock as on 31st March 2023 was ₹2,12,500
- Depreciation Rates: Furniture 10%; Machinery 20% and Building 10%
- Outstanding salaries as on 31st March 2023 was ₹62,250
- Trade receivables include a sum of ₹25,000 due from Mr. B. Reddy and trade payables include ₹15,000 due to him.
- Create a provision for doubtful debt @ 5% on trade receivables.
- Provide for income tax ₹80,000.

Prepare a Statement of Profit and Loss for the year ended on 31st March 2023 and a Balance Sheet as on that date, as per schedule III. **[12]**

5. **Write short note (any three):**

[3×4=12]

- (a) Main Characteristics of a Company

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- (b) Accounting treatment of Borrowing Cost as per AS-16
- (c) Central Electricity Regulatory Commission (CERC)
- (d) Importance of Cash flows

Section – B (Auditing)

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

6. (a) Choose the correct answer from the given four alternatives: [6x1=6]
- (i) 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.
- (ii) An auditor should submit a Disclaimer of Opinion when
- (a) he is satisfied with the truth and fairness of financial statements.
 - (b) he has certain reservations as to the presentation of truth and fairness in financial statements.
 - (c) some material information is not available.
 - (d) the effect of any disagreement with the management is not so material.
- (iii) SA 530 stands for
- (a) Audit Documentation
 - (b) Audit Sampling
 - (c) Responsibility of Joint Auditor
 - (d) Agreeing the terms of Audit Engagements
- (iv) 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
- (v) As per SQC 1, Audit working papers should be retained for a period of
- (a) 2 years
 - (b) 5 years
 - (c) 7 years
 - (d) 10 years
- (vi) Preventive Control is a type of ___
- (a) Internal Control
 - (b) Detective Control

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- (c) Verification
- (d) None of the above

b) Match the following: [4x1=4]

	Column 'A'		Column 'B'
1.	Sec. 204 of the Companies Act	A.	Excise Duty
2.	GAR 7 Challan	B.	Section 123
3.	Declaration of Dividend	C.	₹ 5,00,000
4.	Maximum fees for contravention of Section 139	D.	Secretarial Audit

(c) Say True or False for the following question: [4x1=4]

- (i) Routine checking is a substitute of vouching.
- (ii) "Debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.
- (iii) An auditor of a company can render Investment Banking Service.
- (iv) Internal audit is conducted by the staff of the entity or by an independent professional appointed for that purpose.

Answer any three questions out of the following four questions [3x12=36]

7. (a) Discuss the various methods of obtaining audit evidences. How will you assess the reliability of audit evidences obtained? [5+3=8]
(b) 'Checklist and Internal Control Questionnaire are not the same.'—Discuss. [4]
8. (a) Discuss the provisions of Companies Act, 2013 as regards reporting of frauds by Company Auditor. [6]
(b) Discuss the procedure for appointment for first Auditor of the Company and his tenure. [6]
9. (a) What is the procedure to be followed for fixing the remuneration of a Cost Auditor? [4]
(b) Discuss the basic elements of an audit report. [8]
10. Write short notes (answer any three) [3x4=12]
(a) Audit of a Hospital (any eight points)
(b) Elements of 'cost of inventory' as per AS 2
(c) Auditor's duty regarding unclaimed dividend
(d) Auditor's duty regarding Issue of Debentures