

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

## PTP\_Intermediate\_Syllabus 2012\_June2016\_Set 1

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	List	Make a list of
	What you are expected to know	State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
		COMPREHENSION	Describe
	What you are expected to understand	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	Apply
	How you are expected to apply your knowledge	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	Analyse	Examine in detail the structure of
	How you are expected to analyses the detail of what you have learned	Categories	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
Priorities		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) ABC Ltd. developed a know-how by incurring expenditure of ₹20 lakhs. The know-how was used by the company from 01.04.2008. The useful life of the asset is 10 years from the year of commencement of its use. The company has not amortised the asset till 31.3.2015. Pass Journal entry to give effect to the value of know-how as per Accounting Standard-26 for the year ended 31.3.2015.

(ii) Discuss about Going Concern assumption.

(iii) Hari 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.

(iv) Z Ltd. took over the assets of ₹6,00,000 and liabilities of ₹80,000 of C Ltd. for an agreed purchase consideration of ₹5,40,000 to be satisfied by the issue of 10% Debentures of ₹1,000 each.

Show the necessary journal entries in the books of Z Ltd, assuming that—

Case (a) Such Debentures are issued at par;

(v) List the factors that should be considered in identifying geographical segments.

(vi) X Ltd. of India purchased machinery from U.S.A. at \$ 1.5 million on 01/10/2011-2012. At that date the exchange rate was ₹42 per dollar. This machinery is to be depreciated @ 10% on SLM basis. The exchange rate on 31/03/2013 was ₹ 42.50 per dollar. How this transaction be shown in the financial statements of X Ltd. for the year 2012 - 2013.

(vii) State the meaning of the term 'substantive tests'.

(viii) List the objectives of Social Audit.

(ix) 'The auditor is faced with sampling risk in substantive procedures' - Discuss.

(x) "To verify the secret reserve, the auditor should keep in mind the following points." – List the points.

2. (Answer any 2 questions)

(a) On 1st April, 2010. BHARAT Ltd. purchased a Fixed Asset worth ₹149.50 lakhs for which it got Government grant of ₹24.50 lakhs. The Salvage Value at the end of useful life of 4 years was estimated at ₹51.20 lakhs. X Ltd. decides to treat the Grant as Capital Receipt. During 2012-2013 the Grant has become refundable due to non-fulfillment of certain conditions.

## PTP\_Intermediate\_Syllabus 2012\_June2016\_Set 1

Calculate the amount of the Depreciation to be recognized every year in Profit and Loss Account during the useful life of the machinery if the company followed (a) W.D.V Method. [8]

- (b) (i) X Ltd. sold JCB Machine having WDV of ₹50 Lakhs to Y Ltd. for ₹60 Lakhs and the same JCB was leased back of Y Ltd to X Ltd. The lease is operating lease.

Comment according to relevant Accounting Standard if

- (i) Sale price of ₹60 Lakhs is equal to fair value
- (ii) Fair Value is ₹ 50 Lakhs and sale price is ₹ 45 Lakhs.
- (iii) Fair value is ₹ 55 Lakhs and sale price is ₹ 62 Lakhs.
- (iv) Fair value is ₹ 45 Lakhs and sale price is ₹ 48 Lakhs

[4]

- (ii) Sterling Ltd. purchased a plant for US \$20,000 on 31st December, 2013 payable after 4 months. The company entered into a forward contract for 4 months @ ₹48.85 per dollar. On 31st December, 2013, the exchange rate was ₹ 47.50 per dollar.

How will you recognize the profit or loss on forward contract in the books of Sterling Limited for the year ended 31st March, 2014. [4]

- (c) (i) An engineering goods company provides after sales warranty for 2 years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under:

Invoice date	Amount ₹
19 <sup>th</sup> January, 2011	40,000
29 <sup>th</sup> January, 2012	25,000
15 <sup>th</sup> October, 2012	90,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2012 and 31st March, 2013. Also compute amount to be debited to Profit and Loss Account for the year ended 31st March, 2013. [4]

- (ii) From the following information compute diluted earnings per share.

Net Profit for the year	₹12,00,000
Weighted average number of equity shares outstanding	5,00,000 shares
Average fair value of one equity share	₹20
Weighted average number of shares under option	1,00,000 shares
Exercise price per share under option	₹15

[4]

### 3. (Answer any 2 questions)

- (a) (i) X Ltd. went into liquidation when its position was as given below:

#### 1. Position of Share Capital:

Name of Share Holder	Number and Nature of Share held	Nominal Value per Share ₹	Called up amount per Share ₹	Paid up amount per Share ₹

## PTP\_Intermediate\_Syllabus 2012\_June2016\_Set 1

'A'	6,000,10% Pref. Shares	100	50	50
'B'	500 Equity Shares	100	100	100
'C'	1,000 Equity Shares	75	50	50
'D'	600 Equity Shares	75	50	53
'E'	400 Equity Shares	75	50	47
'F'	1,000 Equity Shares	50	25	25

2. Unsecured Creditors ₹99,000
3. Liquidator's Remuneration ₹1,000

Prepare Liquidator's Final Statement of Account in the following case.  
If the assets are realized for ₹4,00,600

[10]

- (ii) T (ESOP) Ltd provides you the following particulars in respect of stock options granted:

Grant Date	April 1, 2010
Number of Employees covered	1050
Number of Options granted per Employee	50
Vesting Condition: Continuous employment for 3 years	
Nominal Value per share (₹)	100
Exercise Price per share (₹)	125
Market Price per share on Grant Date (₹)	149
Vesting Date	March 31, 2013
Exercise Date	March 31, 2014
Fair Value of Option per share on Grant Date (₹)	30

Position on	31.03.11	31.03.12	31.03.13
Estimated Annual Rate of Departure	2%	3%	
Number of employees left	30	20	16
Number of employees entitled to exercise			984

On 31<sup>st</sup> March, 2014, 960 Employees exercised the option and 24 Employees did not exercise the option.

Compute Expenses to be recognised in each year by (i) Fair Value Method. [6]

- (b) CAMID Limited planned to set up a unit for manufacture of bulk drugs. For the purpose of financing the unit the Board of Directors have issued 15,00,000 equity shares of ₹10 each. 30% of the issue was reserved for promoters and the balance was offered to the public. A, B and C have come forward to underwrite the public issue in the ratio of 3:1:1 and also agreed for firm undertaking of 30,000; 20,000 and 10,000 shares, respectively. The underwriting commission was fixed at 4%. The amount payable on application was ₹ 2.50 per share. The details of subscriptions (excluding firm underwriting) are:

	Shares
Marked forms of A	5,50,000
Marked forms of B	2,00,000
Marked forms of C	1,50,000
Unmarked forms	50,000

(a) You are required to show the allocation of liability among underwriters with workings.

(b) Pass journal entries in the books of CAMID Limited:

- (i) For underwriters' net liability and the receipt or payment of cash to or from underwriters.
- (ii) Determining the liability towards the payment of commission to the underwriters.

[16]

- (c) (i) B Ltd. provides you the following information:

## PTP\_Intermediate\_Syllabus 2012\_June2016\_Set 1

Issued Capital: 2,00,000 Equity Shares of ₹10 each

Reserves & Surplus: Capital Reserve ₹10,00,000

Securities Premium ₹18,00,000

Revenue Reserve ₹30,00,000

Profit & Loss A/c ₹40,00,000

Resolution passed to buy back: 25% of its Equity Shares @ ₹50 per share.

Pass journal entries to record the above transactions assuming that the company achieved the target of buy-back. [6]

- (ii) The promoters of H Ltd. took over on behalf of the company a running business with effect from 1<sup>st</sup> April, 2014. The company got incorporated on 1<sup>st</sup> August, 2014. The annual accounts were made up to 31<sup>st</sup> March, 2015 which revealed that the sales for the whole year totaled ₹1,600 lakhs out of which sales till 31<sup>st</sup> July, 2014 were for ₹400 lakhs. Gross profit ratio was 25%.

The expenses from 1<sup>st</sup> April 2014 till 31<sup>st</sup> March 2015 were as follows:

	(₹ in lakhs)
Salaries	69
Rent, Rates and Insurance	24
Sundry Office Expenses	66
Travelers' Commission	16
Discount Allowed	12
Bad Debts	4
Directors' Fee	25
Audit Fee	9
Depreciation on Tangible Assets	12
Debenture Interest	11

Prepare a statement showing the calculation of Profits for the pre-incorporation and post incorporation periods. [10]

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

- (a) (i) Write a note on (A) Public Deposits (B) Deposit of Statutory Dues [3+5]
- (ii) Discuss the objectives of SAE 3402 Assurance Reports on Controls At a Service Organization. [4]
- (iii) Write a note on Adverse or Negative Report. [4]
- (b) (i) Discuss the overall maximum managerial remuneration and managerial remuneration in case of absence or inadequacy of profits as per section 197 of Companies Act, 2013. [6]
- (ii) State the advantages of Internal Controls. [3]
- (iii) Describe the Audit of a Recreation club. [7]
- (c) (i) List the points for verifying assets and liabilities. [4]
- (ii) 'Vouching is the foundation over which the structure of auditing is erected' – Discuss [4]
- (iii) State the auditor's duty in regard to issue of debentures. [5]
- (iv) List the matters that need to be reviewed on a timely basis. [3]