Paper 12 : Company Accounts & Audit

Full Marks: 100 **Time : 3 hours**

Section A

(1) Answer the following (compulsory) [2x2=4]

(i) What is meant by Reasonable assurance?

(ii) What are the basic assumptions for the preparation of financial statement of an organization?

(2) Answer any two Questions [2x8=16]

(a) (i) Surplus Ltd. received a grant of ₹6 crores from the Central Govt. for the purpose of a special machinery during 2008-09. The cost of machinery was ₹30 crores and had a useful life of 12 years. During 2013-14, the grant has become refundable due to non-fulfillment of certain conditions attached to it.

Assuming the entire grant was deducted from the cost of Machinery in the year of acquisition, state, with reasons, the accounting treatment to be followed in the year 2013-14. **[4]**

(ii) HUM Ltd. is engaged in research on a new process design for its product. It had incurred an expenditure of ₹338.78 lakhs on research upto 31st March, 2012. The development of the process began on 1st April, 2012 and the Development Phase Expenditure was ₹180 lakhs upto 31st March, 2013. From 1st April, 2013 the Company will implement the new process design which will result in an after-tax cost saving of ₹60 lakhs per annum for the next 5 years. The Company's Cost of Capital is 10%. At what cost should the asset be recorded and what is its amortisation amount? **[4]**

(b)(i) DND Ltd. acquired a Pentium-IV computer on lease, for 3 years on 1-1-2011. The fair value of the computer is ₹1,80,000 and carrying value in the books of vendor is ₹1,71,000. DND Ltd. and lease vendor respectively incurred ₹5,000 and ₹5,500 on negotiating lease. The amount payable is in 4 instalments viz., ₹1,05,000 (1-1-2011), ₹68,000 (31-12-2011), ₹30,000 (31-12-2012), ₹9,000. The lessee has also guaranteed as residual value at the end of economic life on 31-12-2013 of 5% of its cost to him. The computer is to be depreciated on SLM. Identify the nature of the lease and make relevant accounts in the book of DND Ltd. when financing cost transacted was 14% per annum:

(Discount factor 14% p.a. For 0,1,2,3 years are 1.000, .8772, .7695, 0.6750, respectively.)

Open ledger accounts in the books of lessee & lessor both.

a) If lessee has guaranteed as residual value at the end of economic life on 31 -12-2013 at 5% of its cost to him, at what value the computer will be recorded in books of DND Ltd.
b) The lessee guarantees only 2% of fair value whereas residual value is 5% of fair, value, find the recording value of computer in books of DND Ltd. **[4]**

(ii) Calculate the basic and diluted EPS

a) Income after tax ₹ 54,00,000
b) Weighted average number of equity shares outstanding is 1,20,000 shares
c) Tax rate 30%
d) Option to purchase 20,000 equity shares at ₹ 48 per share. The options were outstanding all year.

e) Option to purchase 25,000 equity shares at ₹ 18 per share. The average market price of equity share during the year was ₹ 70

f) 12% convertible bonds, 500 bonds, each convertible into 10 equity shares. The bonds were outstanding during the entire year. The bonds were issued at par ₹1000 per bond and no bonds were converted during the year.

g) 8% Convertible cumulative preferred stock per ₹ 100, 8000 shares issued and outstanding the entire year. Each preferred share is convertible into one equity share. The preferred share was issued at par and no shares were converted during the year. **[4]**

(c) (i) MLN Ltd. is developing a new production process. During the financial year 31st March, 2013, the total expenditure incurred on this process was ₹105 lakhs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 48 lakhs.

Further expenditure incurred on the process for the financial year ending 31st March, 2014 was ₹80 lakhs. As at 31 March, 2014, the recoverable amount of know-how embodied in the process is estimated to be ₹165 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to work out:

(a) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2013? (Ignore depreciation for this purpose)

(b) What is the carrying amount of the intangible asset as at 31st March, 2013?

(c) What is the expenditure to be charged to profit and loss account for the financial year ended 31st March, 2014? (Ignore depreciation for this purpose)

(d) What is the carrying amount of the intangible asset as at 31st March, 2014?

[4]

(ii) What would be the exchange rate of the translation of following items while translating the financial statement of foreign operation, if these are part of non-integral foreign operation?

(a) Depreciation
(b) Salaries and wages
(c) Opening Stock
(d) Closing Stock
(e) Debtors
(f) Fixed assets (these were acquired out of funds raised from issue of equity shares)
(g) Accounts payable
(h) Provision for taxes
(i) Head office account. **[4]**

Section B

(3) Answer the following (compulsory) [4x2=8]

(i) Explain the disclosure requirement under revised schedule VI of the following items:-

(a) Bank Overdraft
(b) Provision for Bonus

(iv) What are the conditions should be satisfied under AS 17 by reportable segments?

(V) Distinguish between Mergers And Acquisition?

(vi) What are the conditions to be fulfilled to attract the Pooling of Interest method in the case of Mergers and Acquisition?

(4) Answer any two Questions [2x16=32]

(a) The following are the Balance sheets (as at 31.3.2013) of P Ltd. and Q Ltd.:

Liabilities	**P Ltd.**	**Q Ltd.**	**Assets**	**P Ltd.**	**Q Ltd.**
	₹	₹		₹	₹
Share Capital:			Fixed Assets(Tangible)	23,00,000	13,00,000
Equity Shares of ₹ 10 each	14,00,000	8,00,000	Investments	4,50,000	4,50,000
			Current Assets:		
10% Preference shares of ₹ 100 each	10,00,000	-	Stock	10,00,000	7,00,000
			Debtors	6,50,000	5,00,000
			Bills receivable	45,000	15,000
12% Preference shares of ₹ 100 each	-	4,00,000	Cash at Bank	55,000	35,000
Reserve and Surplus:					
Statutory Reserve	60,000	60,000			
General Reserve	12,40,000	8,40,000			
Secured Loan:					
15% Debentures	2,50,000	-			
12% Debentures	-	2,50,000			
Current Liabilities:					
Sundry creditors	5,20,000	6,20,000			
Bills payable	30,000	30,000			
	45,00,000	30,00,000		45,00,000	30,00,000

Contingent liabilities for bills receivable discounted ₹ 30,000.

(A) The following additional information is provided to you:

	P Ltd.	Q Ltd.
	₹	₹
Profit before Interest and Tax	8,40,000	4,20,000
Rate of Income-tax	30%	30%
Preference dividend	60,000	36,000
Equity dividend	1,80,000	1,35,000
Balance profit transferred to Reserve account.		

(B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.

(C) P Ltd proposes to absorb business of Q Ltd. as on 31.3.2013. The agreed terms for absorption are:

(i) 12% Preference shareholders of Q Ltd. will receive 10% Preference shares of P Ltd. sufficient to increase their present income by 20%.

(ii) The Equity shareholders of Q Ltd. will receive equity shares of P Ltd. on the following terms:

   (a) The Equity shares of Q Ltd. will be valued by applying to the earnings per share of Q Ltd. 60 per cent of price earnings ratio of P Ltd. based on the results of 2012-13 of both the Companies.

   (b) The market price of Equity shares of P Ltd. is ₹ 40 per share.

   (c) The number of shares to be issued to Equity shareholders of Q Ltd. will be based on the 80% of market price.

   (d) In addition to Equity shares, 10% Preference shares of P Ltd. will be issued to the equity shareholders of Q Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2012-13.

(iii) 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 15% debentures in P Ltd. issued at a discount of 10%.

(iv) ₹ 8,000 is to be paid by P Ltd. to Q Ltd. for liquidation expenses. Sundry Creditors of Q Ltd. include ₹10,000 due to P Ltd. Bills receivable discounted by P Ltd. were all accepted by P Ltd.

(v) Fixed assets of both the companies are to be revalued at 20% above book value. Stock in trade is taken over at 10%; less than their book value.

(vi) Statutory reserve has to be maintained for two more years

(vii) For the next two years no increase in the rate of equity dividend is anticipated.

(viii) Liquidation expense is to be considered as part of purchase consideration.

You are required to:

(i) Find out the purchase consideration.

(ii) Give journal entries in the books of P Ltd.

(iii) Give the Balance Sheet as at 31.3.2013 after absorption. **[16]**

(b) (i) The following was the balance sheet of Star Ltd. as at 31st March, 2013.

Liabilities	**₹ in lakhs**
10% Redeemable Preference Shares of ₹ 10 each, fully paid up	5,000
Equity Shares of ₹ 10 each fully paid up	16,000
Capital Redemption Reserve	2,000
Securities Premium	1,600
General Reserve	12,000
Profit and Loss Account	600
9% Debentures	10,000
Sundry creditors	4,600
Sundry Provisions	2,000
	53,800

Assets	**₹ in lakhs**
Fixed assets	28,000
Investments	6,000
Cash at Bank	3,300
Other Current assets	16,500
	53,800

On 1st April, 2013 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹ 20 per share. In order to make cash available, the company sold all the investments for ₹ 6,300 lakh and raised a bank loan amounting to ₹4,000 lakhs on the security of the company's plant.

Pass journal entries for all the above mentioned transactions including cash transactions and prepare the company's balance sheet immediately thereafter. The amount of securities premium has been utilized to the maximum extent allowed by law. **[10]**

(ii) The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2009
Number of employee covered	50
Number of option granted per employee	1000
Fair value of option per share on grant date (₹)	9

The option will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹70 or above at the end of 2011-12.
The estimates of number of employees satisfying the condition of continuous employment were 48 on 31.03.2010 & 47 on 31.3.2011. The number of employees actually satisfying the condition of continuous employment was 45.
The share price at the end of 2011-12 was ₹68.
Compute expenses to recognize in each year and show important accounts in books of the company.
[6]

(c) (i) The following is the Balance Sheet of "Sky" Ltd. as at 31.3.2013:

Liabilities	₹	**Assets**	₹
Share Capital :		Fixed Assets:	
3,000 Equity Shares of ₹ 100, ₹ 75 paid up	2,25,000	Land & Buildings	7,00,000
8,000 Equity Shares of ₹ 100, ₹ 60 paid up	4,80,000	Plant & Machineries	3,80,000
2,500 10% Pref. Share of ₹ 100, fully paid up	2,50,000	Current Assets:	
10% Debentures (floating Charge on all assets)	2,00,000	Stock at Cost	1,20,000
Int. accrued on Deb. (also secured as above)	10,000	Sundry Debtors	2,00,000
Sundry Creditors	5,35,000	Cash at Bank	60,000
		Profit and Loss A/c	2,40,000
Total	**17,00,000**	**Total**	**17,00,000**

On that date, the Company went into Voluntary Liquidation. The dividends on Preference Shares were in arrears for the last two years. Sundry Creditors include a loan of ₹ 90,000 on Mortgage of Land and Buildings. The assets realized were as under: (a) Land & Buildings ₹ 6,40,000; (b) Plant & Machinery ₹ 3,60,000; (c) Stock ₹ 1,30,000;and (d) Sundry Debtors ₹ 1,60,000.

Interest accrued on Loan on Mortgage of Buildings upto the date of payment amounted to ₹ 15,000. The expenses of Liquidation amounted to ₹ 3,600. The Liquidator is entitled to a remuneration of 3% on all the assets realized (except cash at bank) and 2% on the amounts distributed among Equity Shareholders. Preferential Creditors included in Sundry Creditors amount ₹ 40,000. All payments were made on 30.06.2013.

Prepare the Liquidator's Final Statement of Account. **[8]**

(ii) Ms. Lalita Star Ltd. has collected the following information for the preparation of cash flow statement for the year 2000.

	(₹ in lakhs)
Net Profit	25,000
Dividend(including dividend tax) paid	8,535
Provision for Income tax	3,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the asset sold	185
Depreciation charged to Profit & Loss Account	22,000
Amortization of Capital grant	6
Profit on sale of Investment	100
Carrying amount of Investment sold	27,765
Interest income on investments	2,506
Interest expenses	10,000
Interest paid during the year	10,520
Increase in Working capital (excluding Cash & Bank balance)	56,075
Purchase of Fixed assets	14,560
Investment in joint venture	3,850
Expenditure on construction work-in-progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long term borrowing	25,980
Proceeds from short-term borrowing	20,575
Opening Cash & Bank balance	5,003
Closing Cash & Bank balance	6,988

Prepare the Cash Flow Statements for the year 2013 in accordance with AS- 3, Cash Flow Statements. **[8]**

Section C

(5) Answer the following (Compulsory) [4x2=8]

(i) Explain the disclosures require under AS 11.

(ii) Distinguish between Explanatory Notes and Qualificatory Notes.

(iii) What factors should be considered in the design of a Statistical Sample?

(iv) Whether an Auditor opinion in a financial statement is persuasive or a conclusive in nature.

(6) Answer any one Question [1x8=8]

(a) Explain the types of Cost Audit? **[8]**

(b) Purchase of Raw materials by a business were supported by invoices, challans and receipts of suppliers. Invoices were authorized by the Purchase Manager and payments were made to the suppliers by account payee cheque. After the accounts were audited, it was discovered that the raw materials were purchased at inflated prices resulting in a loss or ₹ 3 lakhs to the business. Will the Auditor be held liable in this connection? **[8]**

(7) Answer any two Question [2x12=24]

(a) (i) Compare and contrast between Special Audit u/s 233A and Cost Audit u/s 233B. **[8]**

(ii) External confirmations is more reliable evidence than internal confirmations. Comments. **[4]**

(b) As an auditor, how would you vouch & verify the following items [3x4=12]

(i) Investments,
(ii) Loan against the securities of Land & Buildings
(iii) Sales

(c) State the steps for proper Internal Control over stores of a large Textile Mill company. **[12]**