FINAL EXAMINATION

GROUP II

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2015

Paper-12 : COMPANY ACCOUNTS AND AUDIT

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.

This paper contains four 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 stated.

1. Answer all questions: **2×10=20**

(a) Shiva Limited has received a grant of ₹15 crores from the Government for setting up a manufacturing unit in a backward area. Out of this grant, the company distributed ₹ 4 crores as dividend. Also, Shiva Limited received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent. In the light of AS-12 examine, whether the treatment of both the grants is correct.

(b) GANGOTRI LTD. reports the following information regarding Pension Plan assets.

	₹
Fair market value of Plan Assets as on 31.03.2015	17,00,000
Fair market value of Plan Assets as on 01.04.2014	16,00,000
Benefit payments to Retirees	1,80,000
Employer contribution	1,50,000

Calculate the Actual Return on Plan Assets as per AS-15.

(c) State the classification of amalgamation according to AS-14.

(d) Mahi Ltd. taken a loan of ₹ 15,00,000 from the SBI by issuing 25000, 12% Debentures of ₹ 100 each as collateral security. Pass the necessary journal entries in the books of company.

(e) The following particulars are available from the books of RYMIT LTD.:

	₹
Net profit before provision for Income Tax and Managerial remuneration	98,00,000

but after Depreciation

Depreciation provided in the Books	**30,00,000**
Depreciation allowable under Schedule II of the Companies Act 2013	**25,00,000**

You are required to calculate the Managerial remuneration if there is one Whole-time Director.

(f) **On 1st June, 2015 Suku Ltd. purchased 250 of its own 12% debentures from the open market at ₹ 97 (cum-interest) each for immediate cancellation. Face value of each debenture is ₹ 100. Debenture interest is payable on 30th June and 31st December every year. Pass necessary journal entry to record the above transaction.**

(g) **Discuss the reporting considerations of the principal auditor under SA600.**

(h) **State the auditor's duties in respect of issue of redeemable debentures.**

(i) **What is the main objective of the tax audit?**

(j) **What is meant by Audit programme and Audit Note Book?**

Answer:

1. (a) AS per AS -12 "Accounting for Government Grants," when Government Grant is received for a specific purpose, it should be utilized for the same. So the Grant received for setting up a manufacturing unit is not available for distribution of dividend.
In the case, even if the company has not spent money for the acquisition of land, land should be recorded in the books of accounts at a nominal value. The treatment of both the elements in the treatment of the grant is incorrect as per AS -12.

(b)

Particulars	**(₹)**
Fair market value of Plan assets as on 31.03.2015	17,00,000
Less: Fair market value of Plan assets as on 01.04.2014	(16,00,000)
	1,00,000
Add: Benefit payment to Retirees	1,80,000
Less: Employer Contributions	(1,50,000)
Actual Return on Plan Assts	1,30,000

(c) AS-14 Classifies amalgamation into two types-
(1) Amalgamation in nature of merger,
(2) Amalgamation in nature of purchase.

(d)

Journal of Mahi Ltd.

Particulars		**(₹)**	**(₹)**
Bank A/c To Bank Loan A/c (Loan taken from SBI)	Dr.	15,00,000	15,00,000
Debenture Suspense A/c To 12% Debentures A/c (12% Debentures worth ₹ 20 Lakhs issued as collateral security for a Loan from SBI as per Board's Resolution No...... Date)	Dr.	25,00,000	25,00,000

(e) Calculation of Net Profit under Section 197 of the Companies Act, 2013:

Particulars	(₹)
Net Profit before provision for Income Tax and Managerial Remuneration but after depreciation	98,00,000
Add: Depreciation provided in the books	30,00,000
Less: Depreciation allowable under Schedule-II of the Companies Act, 2013	(25,00,000)
Net Profit	1,03,00,000

Calculation of Managerial Remuneration for only one whole time Director — 5% of ₹ 1,03,00,000 = ₹ 5,15,000.

(f)

Particulars		Dr. (₹)	Cr. (₹)
12% Debentures A/c (250 x ₹100)	Dr.	25,000	
Debenture Interest A/c	Dr.	1,250	
To Bank A/c (250 x ₹97)			24,250
To profit on Redemption of Debentures A/c			2,000
(250 debentures cancelled by purchase from open market)			

Accrued Interest upto 1.6.2015 = $250 \times 100 \times \frac{12}{100} \times \frac{5}{12}$ = ₹ 1,250.

(g)

When the principal auditor concludes, based on his procedures, that the work of the other auditor cannot be used and the principal auditor has not been able to perform sufficient additional procedures regarding the financial information of the component audited by the other auditor, the principal auditor should express a qualified opinion or disclaimer of opinion because there is a limitation on the scope of audit.

In all circumstances, if the other auditor issues, or intends to issue, a modified auditor's report, the principal auditor should consider whether the subject of the modification is of such nature and significance, in relation to the financial information of the entity on which the principal auditor is reporting that it requires a modification of the principal auditor's report. (SA 600)

(h) The auditor shall check the following:

- Whether the issue is permitted by the Articles of the company?
- Whether the company has passed any resolution in the general meeting or not?
- Whether the issue is as per the provision of the Companies Act, 2013?
- Whether proper entries have been made by the company if it is issued is at par or at a premium or at a discount?
- Whether the particulars regarding these debentures are properly maintained and reported or not?
- Whether the amount obtained is properly utilized for the purpose for which it was obtained?

(i) The main objective of the tax audit is to compute the taxable income according to the law and maintaining transparency in the financial statement filed by the assesses with the Income-tax Department.

(j)

Audit Programme

1.	An Audit Programme is a detailed plan of applying the audit procedure in the given circumstances with instructions for the appropriate techniques to be adopted for accomplishing the audit objectives.
2.	It is framed keeping in view the nature, size and composition of the business, dependability of the internal control and the given scope of work.
3.	It provides sufficient details to serve as a set of instructions to the audit team and also helps to control the proper execution of the work.

Audit Note Book

1.	An Audit Note Book is usually a bound book in which a large variety of matters observed during the course of audit are recorded.
2.	It forms part of Audit Working Papers.
3.	A fresh Audit Note Book is maintained for each year.

2. Answer any two questions [out of (a), (b) and (c)]: 8×2=16

(a) (i) What are disclosure requirements under AS-11? 4

(ii) What are the characteristics of a Liability? 4

(b) (i) Following information is provided by Gudu Ltd.:

(A) Net profit for 2013-2014 ₹ 21,00,000.
Net profit for 2014-2015 ₹ 28,00,000

(B) Nos. of shares outstanding prior to Right Issue: 500000 shares as on 01.04.2014.

(C) Right Issue: one new share for 5 outstanding i.e., 100000 new shares

(D) Right price: ₹ 18

(E) Last date of right option: 1st June, 2014

(F) Fair value prior to the right option on 1st June, 2014: ₹ 25 per equity share

You are required to calculate earnings per share. 5

(ii) Following information is provided by Peena Limited:

Date	Particulars	No. of Equity Shares
1st April, 2014	Balance at the beginning of the year	3000
1st July, 2014	Issue of shares for cash	900
31st March, 2015	Buy back of shares	800

You are required to calculate weighted average number of shares. 3

(c) Classify the following into either Operating or Financial Lease (briefly give your reasoning):

1. **Lessee has option to purchase the asset at lower than fair value, at the end of lease term. It is certain that the lessee will exercise the option.**
2. **Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of lease term.**
3. **Economic life of the asset is 6 years, lease term is 2 years, but the assets is of special nature and has been procured only for use of the lessee.**
4. **Present value of minimum lease payment = X. Fair value of the asset = Y. 8**

Answer:

2. **(a) (i) Disclosure under AS – 11: An enterprise should disclose:**

(I) The amount of exchange difference included in the net profit or loss for the period.

(II) The amount of exchange difference adjusted in the carrying amount of fixed assets during the accounting period.

(III) The amount of exchange difference in respect of forward contracts to be recognized in the profit/loss for one or more subsequent accounting period.

(IV) Foreign currency risk management policy.

(ii) Characteristics of a Liability:

(I) Normally liability arises from present obligation. But future obligation may also create liability if they are irrevocable. A forward contract to buy goods is irrevocable; therefore, gain or loss on such contract is evaluated and recognized as an asset or a liability.

(II) Liabilities result from past transactions or other past events. Even an irrevocable future obligation arises from past transactions or commitment (events) only.

(III) Normally liabilities are measurable in money terms. Sometimes liabilities are estimated which are termed as provisions. Frame work defines the term liability broadly that includes provisions.

(IV) Settlement of liability means giving up resources embodying economic benefits. Liabilities are settled in any of the following ways-

- payment cash or transfer of other assets ;
- provision of services (services are rendered or to be rendered)
- replacement by a new obligation;
- conversion of an obligation into equity;
- extinguished by way of waiver from the creditors.

(b) (i)

1. Theoretical ex-right fair value per share:
[(₹ 25 x 500000) + (₹ 18 x 100000)]/(500000 + 100000)
i.e. 143,00,000/600000 = ₹ 23.83.

2. Adjustment factor: fair value prior to exercise of rights/theoretical ex-right value, i.e. ₹25/₹23.83 = 1.05.

3. **Computation of EPS:**

Particulars	Year 2013-2014	Year 2014-2015
EPS as originally reported ₹21,00,000/500000 shares	₹4.20	
EPS restated for right issue ₹21,00,000/(500000 × ₹1.05) = ₹21,00,000/5,25,000	₹4.00	
EPS for 2014-15 including rights ₹28,00,000/ [(500000 × 1.05 × $\frac{2}{12}$) + (600000 × $\frac{10}{12}$)] i.e. $\frac{₹28,00,000}{87,500 + 5,00,000}$		₹4.77

(ii) Computation of weighted average number of shares outstanding during the period:

Date	No. of equity shares	Period outstanding	Weights (months)	Weighted average number of shares
01-4-2014	3000(opening)	12 months	12/12	3000
01-7-2014	900(additional issue)	9 months	9/12	675
31-3-2015	800(Buy back)	0 months	0/12	---
Total				3675

(c) 1. Finance lease if it becomes certain at the inception of lease itself that the option will be exercised by the leasee that also at a price which is lower than its expected fair value.
2. Finance lease, since a substantial portion of the life of the asset is covered by lease term.
3. Finance lease since the asset is procured only for the use of lessee.
4. Finance lease since at the beginning of the lease term, present value of minimum lease rental covers substantially the initial fair value of the leased asset. Where X is minimum lease rental and Y is initial fair value.

3. Answer any two questions [out of (a), (b) and (c)]: 16×2=32

(a) (i) On 31st March 2015, following was the Balance Sheet of FCS Limited:

Liabilities	₹ (in lakhs)	Assets	₹ (in lakhs)
Equity Share Capital (₹ 10)	2,400	Machinery	3,600
Securities Premium	350	Furniture	452
General Reserve	930	Investments (Face Value ₹ 200 lakhs)	148
Profit and Loss Account	340	Current Assets	2,460
Current Liabilities	2,640		
	6,660		6,660

On 1st April 2015 the company announced the buy-back of 25% of its equity shares @ 15 per share. For this purpose, it sold all of its investments for ₹150 Lakhs and issued 2,00,000, 14% preferences shares of ₹ 100 each at par, the entire amount being payable with application.
The issue was fully subscribed. The company achieved the target of buy-back. Later the company issued one fully paid up equity share of ₹ 10 by way of bonus shares for every four equity shares held by the equity shareholders.
Required: Show journal entries for all transactions including cash transactions. 10

(ii) Information relating to five segments of TNT Ltd. are as under:

(₹ in lakh)

Segments	A	B	C	D	E	Total
Segment Revenue	200	600	400	200	600	2000
Segment Result	80	(120)	180	20	(60)	100
Segment Assets	90	110	280	40	80	600

Prepare a statement showing segmental revenue, profits and assets which company need to report. 6

(b) (i) The following particulars relate to Manish Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2½% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Share capital issued:
25000 Preference shares of ₹100 each fully paid up.
125000 Equity shares of ₹10 each fully paid up.
75000 Equity shares of ₹10 each, ₹ 8 paid up.
Assets realized ₹ 50,00,000 excluding the amount realized by sale of securities held by partly secured creditors.
Other information:

	(₹)
Preferential creditors	1,25,000
Unsecured creditors	45,00,000
Partly secured creditors (Assets realized ₹ 8,00,000)	8,75,000
Debenture holders having floating charge on all assets of the company	15,00,000
Expenses of liquidation	25,000

A call of ₹ 2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 2500 shares.
Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors. 10

(ii) 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. 6

(c) (i) 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:

(i) 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.

(ii) Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.

(iii) Own debentures of ₹ 25,00,000 were sold at ₹ 98 per debenture cum-interest and remaining own debentures were cancelled.

(iv) Debenture holders of ₹ 4.8 crores agreed to accept one machinery of book value of ₹ 5 crores in full settlement.

(v) 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.

(vi) 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. 12

(ii) Guddu Ltd. incorporated on 1st July, 2014 and received the certificate to commence business on 1st August, 2014. It had acquired a running business of Guddu Stores from 1st April, 2014. Sales for the year ending 31st March, 2015 was ₹ 40 lakhs. Sales per month for first six months was one-half of the monthly sales for last six months of the year. Calculate time ratio and sales ratio to ascertain prior to and after incorporation profit/loss of the Guddu Ltd. 4

Answer:

3. (a) (i)

In the books of FCS Ltd.
Journal

(₹ In Lakhs)

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
1.	Bank A/c Dr. To Investments A/c (Being the sale of investments)		150	 150
2.	Investments A/c Dr. To Profit and Loss A/c (Being the t/f of Profit on sale of Investments)		2	 2
3.	Bank A/c Dr. To 14% Preference Share Application & Allotment A/c (Being the Application money received)		200	 200
4.	14% Preference Share Application & Allotment A/c Dr. To 14% Preference Share Capital A/c		200	 200

	(Being the Allotment of Shares)			
5.	Equity Shares Buy Back A/c Dr. To Bank A/c (Being the payment made to equity shareholders on buy-back)		900	 900
6.	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Equity Shares Buy Back A/c (Being the cancellation of share bought back)		600 300	 900
7.	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being creation of Capital Redemption Reserve A/c to the extent of the face value of equity shares bought back)		600	 600
8.	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. To Bonus Issue A/c (Being the utilisation of capital redemption reserve and securities premium to issue one bonus share for every four shares held)		400 50	 450
9.	Bonus Issue A/c Dr. To Equity Share Capital a/c (Being the Issue of one bonus share for every four equity shares)		450	 450

Note: Amount of Bonus Issue = 25% of (2400 - 25% of 2400) = 450 lakhs.

(ii)

Particulars	A	B	C	D	E	TOTAL
1. Segment Revenue	200	600	400	200	600	2000
2. % of Segment Revenue	10%	30%	20%	10%	30%	
3. Segment Result: Profit	80		180	20		280
Loss		(120)			(60)	(180)
4. % of segment result	28.57%	42.86%	64.29%	7.14%	21.43%	
5. Segment Assets	90	110	280	40	80	600
6. % of Segment Assets	15%	18.33%	46.67%	6.67%	13.33%	
Reportable Segment	Yes	Yes	Yes	Yes	Yes	
Criteria Satisfied	Revenue, Result &Assets	Revenue, Result & Assets	Revenue, Result & Assets	Revenue	Revenue, Result & Assets	

According to AS-17 on "Segment Reporting" a business segment or geographical segment should be identified as a reportable segment if:

(a) Its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or

(b) Its segment result, whether profit or loss , is 10% or more of:

(i) The combined result of all segments in profit, or

(ii) The combined result of all segments in loss,
whichever is greater in absolute amount, or

(c) Its segment assets are 10% or more of the total assets of all segments.

3. (b) (i)

Liquidator's Statement of Account

Particulars	**₹**	**Particulars**	**₹**	**₹**
To Assets realised	50,00,000	By Liquidator's remuneration:		
To Receipt of call money on 72500 Equity Shares @ ₹ 2.00 per share	1,45,000	@ 2.5% on 58,00,000	1,45,000	
		@ 2% on 1,25,000	2,500	
		@ 2% on 32,81,863 (Refer working note. IV)	65,637	2,13,137
		By Liquidation Expenses		25,000
		By Debenture holders having a floating change on all assets		15,00,000
		By Preferential Creditors		1,25,000
		By Unsecured Creditors		32,81,863
	51,45,000			51,45,000

Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{32,81,863}{45,75,000} = 71.73\%.$$

Working notes:

(I) Total assets realized excluding call money = ₹ 50,00,000 + 8,00,000 = ₹ 58,00,000.
(II) Unsecured portion in partly secured creditors = ₹ 8,75,000 - 8,00,000 = ₹ 75,000.
(III) Total unsecured creditors =₹ 45,00,000+75,000 = ₹ 45,75,000

(IV) Liquidator's Remuneration

Particulars	**Computation**	**₹**
2.5% on all assets realized excluding call money but including sale of securities held by partly secured creditors	2.5% × ₹(50,00,000 +8,00,000)	1,45,000
2% on amount paid to preferential creditors	2% × ₹1,25,000	2,500
Sub-total of above		1,47,500
2% on Amount paid to Other Unsecured Creditors (Excluding Preferential Creditors)	₹33,47,500 × 2/102	65,637
Total Remuneration to Liquidator		**2,13,137**

Note:
Amount available for unsecured creditors & Liquidator's Remuneration:

= Gross Amount – [Expenses for liquidation + Remuneration (sub-total as above) + Debenture holders + Preferential Creditors]

= 51,45,000 – [25,000 + 1,47,500 + 15,00,000 + 1,25,000]
= 33,47,500.

(ii)

Statement of Underwriters' Liability

Particulars	S	T	U	V	TOTAL
Gross Liability	4,00,000	3,00,000	2,00,000	1,00,000	10,00,000
Less: Marked Applications	4,40,000	1,80,000	2,20,000	20,000	8,60,000
Balance Left	(40,000)	1,20,000	(20,000)	80,000	1,40,000
Less: Unmarked Application	16,000	12,000	8,000	4,000	40,000
Applications in the ratio of gross liability	(56,000)	1,08,000	(28,000)	76,000	1,00,000
Division of surplus of S and U to T and V in the ratio of (3:1)	(56,000)	(63,000)	28,000	(21,000)	0
Net Liability	NIL	45,000	NIL	55,000	1,00,000

(c) (i)

In the Books of Poova Ltd.

(₹ In lakhs)

Date	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
1.4.2015	Equity Share Capital A/c Dr. To Equity Share Capital A/c (Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)	3,000	 3,000
	Equity Share Capital A/c Dr. To Capital Reduction A/c (Being reduction of Equity Capital by 50%)	1,500	 1,500
	Capital Reduction A/c Dr. To Bank A/c (Being payment in cash of 10% of arrear of preference dividend)	27	 27
	Bank A/c Dr. To Own Debentures A/c To Capital Reduction A/c (Being profit on sale of own debentures of ₹75,000 transferred to Capital Reduction A/c)	24.5	 23.75 0.75
	12% Debentures A/c Dr. To Own Debentures A/c To Capital Reduction A/c (Being profit on cancellation of own debentures transferred to Capital Reduction A/c)	15	 14.25 0.75

	12% Debentures A/c Dr. Capital Reduction A/c Dr. To Machinery A/c (Being machinery taken up by debenture holders for ₹ 4.80 Cr.)	480 20	 500
	Trade Payables A/c Dr. Capital Reduction A/c (balancing figure) Dr. To Trade Receivables A/c To Inventory A/c (Being assets and liabilities revalued)	110 110	 150 70
	Capital Reduction A/c Dr. To Goodwill A/c To Discount on Debentures A/c To Profit and Loss A/c (Being the above assets written off)	860	 40 6 814
	Capital Reduction A/c Dr. To Bank A/c (Being penalty paid for avoidance of capital commitments)	4	 4
	Capital Reduction A/c Dr. To Capital Reserve A/c (Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)	480.50	 480.50
2.4.2015	Business Purchase A/c Dr. To Liquidators of Pouru Ltd. (Being the purchase consideration payable to Pouru Ltd.)	2,640	 2,640
	Fixed Assets A/c Dr. Inventory A/c Dr. Trade Receivables A/c Dr. Cash at Bank A/c Dr. To Trade Payables A/c To 12% Debentures A/c of Pouru Ltd. To Profit and Loss A/c To General Reserve A/c ₹(340+160) To Business Purchase A/c (Being the takeover of all assets and liabilities of Pouru Ltd. by Poova Ltd.)	1,520 1,360 880 260	 450 400 30 500 2,640
	Liquidators of Pouru Ltd. A/c Dr. To Equity Share Capital A/c To 9% Preference Share Capital A/c (Being the purchase consideration discharged)	2,640	 2,000 640
	12% Debentures of Pouru Ltd. A/c Dr. To 12% Debentures A/c (Being Poova Ltd. issued their 12% Debentures in against of every Debentures of Pouru Ltd.)	400	 400

Working Note:

1. Arrear dividend to Preference Shareholders
   Preference Share Capital ₹ 10,00,00,000 @ 9% will yield dividend of ₹ 90,00,000 per

year and for 3 years = ₹ 2,70,00,000. Out of this only 10% is paid and the balance is waived off. Hence, amount paid = ₹ 27,00,000.

2. Profit on redemption of own debentures
Own Debentures with Nominal Value of ₹ 25,00,000 sold for ₹ 98 per Debenture = ₹ 24,50,000
Book Value = (38Lakhs/40Lakhs) x 25Lakhs= ₹ 23.75Lakhs
Profit on own Debentures sold = ₹ 24.50Lakhs-23.75Lakhs= ₹ 0.75Lakhs
Balance Own Debentures = ₹ 38Lakhs-23.75= ₹ 14.25Lakhs

3. Purchase Consideration:

Equity share capital 2000000 x $\frac{50}{5}$ x ₹10	2000 Lakhs
9% Preference share capital 800000 x $\frac{4}{5}$ x 100	640 Lakhs
	2640 Lakhs

(ii) Time ratio
Time upto incorporation - 1/4/14 to 30/6/2014 = 3 months
Time after incorporation = 1/7/14 to 31/3/15 = 9 months.
Hence, Time Ratio is 3:9 or 1:3

Sales Ratio
Let, average monthly sales for last six months are ₹1 then for first six months will be ₹½.
First six months: Last six months
= ½ × 3: {(1/2 × 3) + (1 × 6)}
= 3/2: [3/2 +6]
=3/2:15/2
= 3:15 i.e. 1:5

4. Answer any two questions [out of (a), (b) and (c)]: 16x2=32

(a) (i) Distinguish between internal audit and internal check. 7
(ii) State the main objects of verification of assets and liabilities. 5
(iii) Write a note on duties of a Company auditor. 4

(b) (i) As an auditor of a company, how will you audit of re-issue of forfeited shares? 4
(ii) State the objectives and functions of the Auditing and Assurance Standard Board (AASB). 4
(iii) Distinguish between audit report and audit certificate. 8

(c) (i) What are the matters to be specially considered while conducting the audit of a Partnership firm? 8
(ii) Briefly mention the provisions relating to Cost Audit. 8

Answer:

4. (a) (i)

Sl. No.	Basis	Internal Audit	Internal Check
I.	Meaning	It is a continuous critical review of financial and operating activities by a staff member of the auditor.	A system of allocation of responsibility, division of work, and methods of recording transactions, whereby the work of an employee is checked continuously by another.
II.	Way of Checking	In an internal audit system, each component of work is checked.	It operates in routine to doubly check every part of a transaction at the time of occurrence and recording of the same.
III.	Objective	Its objective is to evaluate the internal control system and to detect frauds and errors.	Its objective is to ensure that no one employee has exclusive control over any transaction or group of transactions and their recording in the books
IV.	Point of Time	In an internal audit system, work is checked after it is done.	Methods of recording transactions are devised where work of an employee is checked continuously by correlating it with the work of others.
V.	Thrust of system	The thrust of internal system is to detect errors and frauds.	The thrust of internal control lies in fixing of responsibility and division of work to avoid duplication.
VI.	Cost Involvement	In an internal audit system, work is checked specially; therefore cost is involved in addition to accounting	It is a part of internal control and a method of division of work, therefore does not add to the cost.
VII.	Report	The internal auditor submits his report to the management	The summary of day to day transactions work as report for the senior.

(ii) Objects of Verification - verification of assets and liabilities is done with the following objects:

I. To know whether the Balance-Sheet exhibits a true and fair view of the State of affairs of the business.
II. To find out whether the assets were in existence
III. To find out the ownership and title of the assets
IV. To show correct valuation of assets and liabilities
V. To verify the arithmetical accuracy of the books of accounts
VI. To ensure that the assets have been recorded properly
VII. To detect frauds & errors, if any
VIII. To find out whether there is an adequate internal control regarding acquisition, utilization and disposal of assets.

(iii) Duties of the company auditor are as follows:

I. Whether the loans & advances made by the company on the basis of security have been properly secured & the terms are not against the interest of the company or its members;
II. Whether the transactions merely representing book-entries as recorded in the

books are not against the interest of the company;

III. The securities have been sold by Company other than Banking Investment Company, at a price-less than purchase price;

IV. Whether loans & advances made by the Company have been shown as deposits.

V. Personal expenses have been charged to revenue account;

VI. Whether cash has actually been received in respect of any shares shown in the books to have been allotted for cash.

VII. Whether the position as stated in the books is correct, regular and is not misleading.

(b) (i) Following procedure to be followed to audit of re-issue of forfeited shares:

I. The auditor should ascertain that the board of directors has the authority under the Articles of Association of the company to reissue forfeited shares. Check the relevant resolution of the Board of Directors.

II. Vouch the amounts collected from persons to whom the shares have been allotted and verify the entries recorded from re-allotment. Auditor should check the total amount received on the share including received prior to forfeiture, is not less than the par value of shares.

III. Verify that computation of surplus amount arising on the reissue of shares credited to Capital Reserve Account and

IV. Where partly paid shares are forfeited for non-payment of call, and re-issued as fully paid, the reissue is, considered as an allotment at a discount and compliance of the provisions of Section 53 is essential.

(ii) THE OBJECTIVES AND FUNCTIONS OF THE AUDITING AND ASSURANCE STANDARD BOARD (AASB)

I. To review the existing and emerging auditing practices worldwide.

II. To formulate Engagement Standards, Standards on Quality Control and Statement on Auditing.

III. To review and revise the existing Standards and Statements on Auditing.

IV. To develop Guidance Notes on issues arising out of any Standard, auditing issues pertaining to any specific industry and revise.

V. To review and revise the existing Guidance Notes.

VI. To formulate General Clarifications, where necessary, on issues arising from Standards.

VII. To formulate and issue Technical Guides, Practice Manuals, Studies and other papers.

(iii) Difference between Audit Report and Audit Certificate

I. **Meaning:** Audit Report is a statement of collected and considered information so as to give a clear picture of the state of affairs of the business to the persons who are not in possession of the full facts. While Audit Certificate is a written confirmation of the accuracy of the information stated there in.

II. **Opinion:** Audit Report contains the opinion of the auditor on the accounts, while Audit Certificate does not contain any opinion but only confirms the accuracy of the figures with the books of accounts.

III. **Basis:** Audit Report is made out on the basis of information obtained & books of account verified by the auditor, while Audit Certificate is made out on the basis of the particular data capable of verification as regards accuracy.

IV. **Guarantee:** Audit Report may not guarantee correctness of financial statement in absolute terms, while Audit Certificate guarantees absolute correctness of the figures & information mentioned in the certificate.

V. **Coverage:** Audit Report always covers entire accounts of the concern, while Audit Certificate covers only certain part of the accounts of the concern.

VI. **Responsibility:** Audit Report does not hold auditor responsible for anything wrong in the accounts, while Audit Certificate makes an auditor responsible if anything mentioned in the certificate found as wrong later on.

VII. **Suggestion:** Audit Report may provide certain suggestions for improvement while Audit certificate does not provide any such suggestion.

VIII. **Nature:** Audit Report is based on the vouching & verification of books of accounts, voucher, assets & liabilities, while Audit Certificate is based on checking arithmetical accuracy of the facts.

IX. **Scope:** Audit Report covers all transactions done during the year, while the Audit Certificate is very specific.

X. **Characteristics:** Audit Report is subjective as it is opinion oriented, while Audit certificate is objective as it is fact oriented.

XI. **Form:** Audit Report is required to be presented in the prescribed format, while Audit Certificate, except in - few cases, is not required to be presented in any standard format.

XII. **Address:** Audit report is addressed to the members of the company at large or appointing authority while Audit Certificate is addressed to particular person or sometimes may include the words like "To Whomsoever it may concern",

(c) (i) Special Points in Audit of a Partnership Firm: Matters which should be specially considered in the audit of accounts of a partnership firm are as under:

I. Confirming that the letter of appointment, signed by a partner, duly authorised, clearly states the nature and scope of audit contemplated by the partners, specially the limitation, if any, under which the auditor shall have to function.

II. Examine the partnership deed signed by all partners and its registration with the registrar of firms. Also ascertain from the partnership deed about capital contribution, profit sharing ratios, interest on capital contribution, powers and responsibilities of the partners, etc.

III. Studying the minute book, if any, maintained to record the policy decision taken by partners specially the minutes relating to authorisation of extraordinary and capital expenditure, raising of loans, purchase of assets, extraordinary contracts entered into and other such matters which are not of a routine nature.

IV. Verifying that the business in which the partnership is engaged is authorised by the partnership agreement; or by any extension or modification thereof agreed to subsequently.

V. Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of the business of the partnership.

VI. Verifying generally that the interest of no partner has suffered prejudicially by an activity engaged in by the partnership which, it was not authorised to do under the partnership deed or by any violation of a provision in the partnership agreement.

VII. Confirming that a provision for the firm's tax payable by the partnership has been made in the accounts before arriving at the amount of profit divisible among the partners. Also see various requirements of legislations applicable to the partnership firm like Section 44(AB) of the Income-tax Act, 1961 have been complied with.

VIII. Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio.

(c) (ii)

I. Cost Audit covered by Section 148 shall be in addition to the audit conducted u/s 143.

II. As per the section 148 the Central Government may by order specify audit of items of cost in respect of certain companies.

III. Further, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies.

IV. The Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such Special Act

V. APPOINTMENT OF COST AUDITOR [RULE 14 OF THE COMPANIES (AUDIT AND AUDITORS) RULES, 2014]

In the case of Companies required to constitute an Audit Committee	1. Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such Cost Auditor; 2. Remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders.
In the case of Other Companies	The Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as Cost Auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

Note: Provided that no person appointed u/s 139 as an auditor of the company shall be appointed for conducting the cost audit.

VI. Cost Auditor conducting the audit shall comply with the Cost Auditing Standards ("cost auditing standards" mean such standards as are issued by the Institute of Cost and Works Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government).

VII. The qualifications, disqualifications, rights, duties and obligations applicable to auditors shall, so far as may be applicable, apply to a Cost Auditor appointed under section 148.

VIII. It shall be the duty of the company to give all assistance and facilities to the cost auditor appointed

IX. Cost Audit Report shall be submitted by the Cost Auditor to the Board of Directors of the company.

X. A company shall within 30 days from the date of receipt of a copy of the Cost Audit Report prepared (in pursuance of a direction issued by Central Government) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.