

INTERMEDIATE EXAMINATION

December 2017

*P-12(CAA)
Syllabus 2016*

Company Accounts and Audit

Time Allowed: 3 Hours

Full Marks: 100

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

Where considered necessary, suitable assumptions may be made and clearly indicated in the answer.

The Question Paper has two sections, A and B. Both sections are to be answered as per instruction given against each.

Section – A (Company Accounts)

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

1. (a) Choose the correct alternative: 1×6=6
- (i) While preparing Cash Flow Statement of XY Ltd., a finance company, interest received on loans should be shown as
- (A) Cash Flow from Operating Activities
 - (B) Cash Flow from Investing Activities
 - (C) Cash Flow from Financing Activities
 - (D) Cash and Cash Equivalent
- (ii) As per Schedule III Current Maturities of Long Term Borrowings should be shown under
- (A) Current Assets in Balance Sheet
 - (B) Non-current Liability in Balance Sheet
 - (C) Current Liabilities in Balance Sheet
 - (D) Other Expenses in Statement of Profit and Loss

Please Turn Over

- (iii) Which of the following is not a criterion for selecting a reportable segment under AS 17?
- (A) 10% or more of aggregate revenue of all segment
 - (B) 10% or more of aggregate assets of all segment
 - (C) 10% or more of aggregate liabilities of all segment
 - (D) 10% or more of aggregate profit or loss of all segment (higher of the two)
- (iv) Which of the following is not a mandatory financial statement of a General Insurance Company as per IRDA regulations?
- (A) Revenue Account
 - (B) Profit and Loss Account
 - (C) Balance Sheet
 - (D) Cash Flow Statement
- (v) A Banking Company needs to transfer a minimum of _____ its profit to reserve fund.
- (A) 10%
 - (B) 15%
 - (C) 20%
 - (D) 25%
- (vi) In case of an electricity company, depreciation on assets is calculated based on the rates notified by
- (A) Companies Act 2013
 - (B) State Electricity Commission
 - (C) Central Electricity Regulatory Commission
 - (D) Income Tax Act 1961
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(b) Match the following items in Column 'A' with items shown in Column 'B':

1×4=4

	Column 'A'		Column 'B'
1.	Guaranteed Residual Value (GRV)	A.	Capital Reserve
2.	Premium on Redemption of Preference shares	B.	AS 11
3.	Exchange Difference	C.	Securities Premium A/C
4.	Profit on reissue of forfeited shares	D.	AS 19

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

1×4=4

- In case of an underwriting arrangement, marked applications are those applications that bear the stamp of the issuing company.
- In case the leaseback is a finance lease, the sale proceeds in excess of the carrying amount should be immediately recognized in the Income Statement.
- Issue of fully paid up bonus shares increases the total shareholders fund.
- Interest and dividend received form a part of financing cash flow.

2. (a) R Ltd. wants to buy-back 100000 equity shares of ₹ 10 each at a price of ₹ 20 each on 01.04.2017. The buy-back is allowed in its articles of association and the company has obtained necessary approval from the shareholders. The company has sufficient bank balance to make the payment for buy-back of shares.

The following information is available as on 31.03.2017:

₹

Equity Share Capital (₹ 10 each fully paid)	50,00,000
General Reserve	60,00,000
Dividend Equalization Reserve	10,00,000
Balance of Profit and Loss (Cr.)	5,00,000
10% Debentures (₹ 100 each)	75,00,000
Bank Loan	40,00,000
Current Liabilities	66,00,000

Please Turn Over

Verify whether the buy-back plan of the company meets the conditions specified by the Companies Act 2013 as regards to the maximum amount of buy-back. Also pass necessary journal entries in the books of the company to give effect of the process, if the plan is found to be in place.

9

- (b) Z Ltd. sold goods to a US Company for US \$ 50000 on 10.02.2017 and realized the due on 30.06.2017. Z Ltd. closes the books of accounts on 31st March. Exchange rates were as follows:

Date	Rate
10.02.2017	65.40
31.03.2017	66.00
30.06.2017	65.80

Calculate the exchange loss/gain the reporting date and on the settlement date and comment on their treatment as per AS 11.

3

3. (a) On the basis of the following information provided by X Ltd. prepare a Cash Flow Statement for the year ended on 31st March 2017.
- (i) X Ltd. sold all the goods for cash only and purchased the goods in credit only.
 - (ii) The company earned a Gross Profit of ₹ 4,00,000 with a Gross Profit Ratio of 25%.
 - (iii) The closing inventory was higher than the opening inventory by ₹ 20,000.
 - (iv) The company paid ₹ 4,50,000 as wages and ₹ 90,000 as office expenses during the year.
 - (v) Balance of Suppliers accounts on 31.03.2016 were higher than the balance on 31.03.2017 by ₹ 30,000.
 - (vi) Tax paid by the company amounts to ₹ 80,000 while provision for taxation was ₹ 70,000.
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- (vii) The company repaid bank loan of ₹ 1,75,000 which included interest of ₹ 15,000.
- (viii) Dividend paid during the year ₹ 50,000 (including dividend distribution tax).
- (ix) X Ltd. sold investments of ₹ 6,00,000 at a profit of ₹ 40,000.
- (x) Depreciation charged on fixed assets ₹ 1,20,000.
- (xi) Furniture purchased during the year ₹ 2,00,000.
- (xii) Cash and Cash Equivalents as on 31.03.2016 was ₹ 1,00,000.
- (xiii) Cash and Cash Equivalents as on 31.03.2017 was ₹ 4,95,000. 8
- (b) From the following information for a Bank calculate the amount of discount to be transferred to the Statement of Profit and Loss.

(i) Rebate on Bills Discounted (as on 01.04.2016) ₹ 28,000. Discount Received ₹ 1,02,000.

(ii) The following bills have been discounted during the year:

Amount of Bill (₹)	Rate of Discount	Due Date (including grace days)
65,000	13% p.a.	June 14, 2017
1,50,000	15% p.a.	July 19, 2017
4,30,000	12% p.a.	August 10, 2017

Also pass the necessary journal entry for the unexpired discount as on 31.03.2017. 3+1=4

Please Turn Over

4. ABC Ltd. provides the following Trial Balance as on 31st March 2017:

Particulars	Dr. Balances (₹)	Cr. Balances (₹)
Equity Share Capital: 350000 shares of ₹ 10 each fully paid		35,00,000
10% Debentures		3,00,000
Motor Van	4,00,000	
Machinery	20,00,000	
Land and Building	12,00,000	
12% Long Term Govt. Securities	2,00,000	
Sales		60,00,000
Sales Return	3,00,000	
Interest on Debenture	22,500	
Purchase	36,00,000	
Purchase Returns		4,00,000
Opening Stock	3,00,000	
Discount	7,500	
Carriage Outward	1,50,000	
Rent and Rates	50,000	
Income from Govt. Securities		24,000
Trade Receivables	10,00,000	
Trade Payables		2,00,000
Advertisement	1,50,000	
Bad Debt	20,000	
Salaries	6,72,000	
Misc. Expenditure	30,000	
Contribution to P.F. and Gratuity Funds	1,00,000	
Cash at Bank and in hand	2,22,000	
Total	1,04,24,000	1,04,24,000

Additional Information:

- (i) Closing Stock as on 31st March 2017 was ₹ 3,50,000.
- (ii) Depreciation Rates: Motor Vehicle 10%, Machinery 20% and Land & Building 5%.
- (iii) Misc. expenditure includes ₹ 20,000 as audit fees.
- (iv) Interest on debenture is payable quarterly and the last quarter's interest is yet to be paid.
- (v) Trade receivables include a sum of ₹ 25,000 due from Mr. X who has become insolvent and only 25 paise in a rupee is expected to be recoverable from him.
- (vi) Create a provision for doubtful debt @ 2% on trade receivables.
- (vii) Provide for income tax ₹ 1,50,000.

Prepare a Statement of Profit and Loss for the year ended on 31st March 2017 and a Balance Sheet as on that date. 12

5. Write short notes (any three):**4×3=12**

- (a) Operating Lease and Finance Lease
- (b) Right Issue of Shares
- (c) Provisioning Arrangements for Non-Performing Assets
- (d) Money Received against Share Warrants

Please Turn Over

Section – B (Auditing)

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

6. (a) Identify the correct alternative:

1×6=6

(i) 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.

(ii) In case of a company other than a Government Company, any casual vacancy in the post of auditor is to be filled by the

(A) Board of Directors

(B) Managing Director

(C) Comptroller and Auditor General (CAG)

(D) Shareholders

(iii) An Audit Committee should have a minimum of _____ number of directors.

(A) 4

(B) 3

(C) 5

(D) 6

(iv) SA 530 stands for

(A) Audit Documentation

(B) Audit Sampling

(C) Responsibility of Joint Auditor

(D) Agreeing the terms of Audit Engagements

(v) Unpaid dividend standing at the credit of Unpaid Dividend A/C should be transferred to Investor Education and Protection Fund after _____ years of its remaining unpaid.

- (A) six
- (B) eight
- (C) seven
- (D) five

(vi) Which of the following services cannot be rendered by an auditor as per Companies Act 2013?

- (A) Vouching
- (B) Verification of assets and liabilities
- (C) Issuing certificates on relevant matters
- (D) Providing investment advisory services

(b) Match the following items in Column 'A' with items shown in Column 'B':

1×4=4

	Column 'A'		Column 'B'
1.	Appointment of Company Auditor	A.	Current Audit File
2.	Remuneration of a Company Auditor	B.	Section 139 of Companies Act 2013
3.	Different accounting schedules such as schedule of debtors and creditors	C.	Permanent Audit File
4.	Analysis of significant ratios and trends	D.	Section 142 of Companies Act 2013

Please Turn Over

- (c) State whether the following statements are true or false: 1×4=4
- (i) As per Section 138 of Companies Act 2013, no private company or unlisted company is required to appoint an internal auditor.
 - (ii) Audit Memorandum is a detailed plan of audit work clearly specifying the responsibilities of the audit staff and time allotted to perform the same.
 - (iii) Substantive procedure is also known as test of control.
 - (iv) Cut-off procedures are adopted to allocate revenues and costs to the proper accounting period.
7. (a) Discuss the various methods of obtaining audit evidences. How will you assess the reliability of audit evidences obtained? 5+3=8
- (b) 'An auditor applies various techniques to evaluate the internal control system of an organization'—Discuss. 4
8. (a) Discuss the provisions under Section 139(7) relating to the appointment of the first auditor in a Government Company. How can an auditor, duly appointed by a company, be removed before expiry of his term? 4+3=7
- (b) Discuss the duty of an auditor to report certain matters in the audit report u/s 143(3). 5
9. (a) What is the procedure of appointing a cost auditor in a company? 4
- (b) Discuss the basic elements of an audit report. 8
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10. Write short notes (*any three*):

4×3=12

- (a) Audit of Municipalities and Panchayats
 - (b) Audit of Bonus share issued by a company
 - (c) Branch Auditor
 - (d) Declaration of dividend by a company u/s 123
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