

INTERMEDIATE EXAMINATION

June 2018

**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 should 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) Premium on redemption of redeemable preference shares can be paid out of

- (A) Capital Redemption Reserve Account
- (B) Existing Shares Premium Account
- (C) Proceed of fresh issue of shares
- (D) All of the above

(ii) Which of the following is not a component of Cash Flow Statement?

- (A) Cash payments to suppliers for goods and services
- (B) Charging of Depreciation
- (C) Cash advances and loans made to third parties
- (D) Cash repayments of amounts borrowed

(iii) The Electricity Act, 2003 replaced which of the following three existing legislations?

- (A) The Indian Electricity Act, 1910
- (B) The Electricity (Supply) Act, 1948
- (C) The Electricity Regulatory Commissions Act, 1998
- (D) All of the above

Please Turn Over

- (iv) General Ledger of a Banking Company does not contain
- (A) Control Accounts of all personal ledgers
 - (B) Assets Accounts
 - (C) Contra Accounts
 - (D) Balance Sheet
- (v) Which of the following is a principle of insurance?
- (A) Principle of indemnity
 - (B) Insurable interest
 - (C) Principle of uberrimae fidei
 - (D) All of the above
- (vi) Underwriting commission payable on the shares taken up by the promoters is
- (A) 2.5%
 - (B) 2%
 - (C) 5%
 - (D) Nil

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

1×4=4

	Column 'A'		Column 'B'
1.	Government Grants	A.	Capital Redemption Reserve
2.	Redemption of Debentures	B.	AS 16
3.	Un-guaranteed Residual Value	C.	AS 12
4.	Borrowing Cost	D.	AS 19

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

1×4=4

- (i) Marked applications are those applications which bear the stamp of an underwriter.
- (ii) In order to spread the risk of under-subscription, the principal underwriters may enter into subsidiary agreements with sub-leasees.
- (iii) When debentures are issued at discount, it is prudent to write off the loss during the life of debentures.
- (iv) Any surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax.

2. (a) On 01.01.2017 Jay Ltd. had 2,000, 12% Debentures of ₹ 100 each. On 01.05.2017 the company purchased 400 own Debentures at ₹ 97 cum-interest in the open market. Interest on debentures is payable on 30th June and 31st December each year.

Required: Give the necessary journal entries assuming that the own Debentures purchased were retained as investments till 31.12.2017, on which date they were cancelled.

Assume that the company follows English Calendar Year.

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- (b) M/s. Ayush Ltd. began construction of a new building on 1st January, 2017. It obtained ₹ 3,00,000 lakh special loan to finance the construction of the building on 1st January, 2017 at an interest rate of 12% p.a. The company's other outstanding two non-specific loans were:

Amount	Rate of Interest
₹ 6,00,000	11% p.a.
₹ 11,00,000	13% p.a.

The expenditure that were made on the building project were as follows:

	Amount (₹)
January, 2017	3,00,000
April, 2017	3,50,000
July, 2017	5,50,000
December, 2017	1,50,000

Building was completed on 31st December, 2017. Following the principles prescribed in AS 16 on 'Borrowing Cost', calculate the amount of interest to be capitalized and pass one Journal entry for capitalizing the cost and borrowing in respect of the building.

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3. (a) The following are the summarized Balance Sheets of ABC Limited as on 31st March, 2016 and 2017:

Liabilities	31.03.16 ₹	31.03.17 ₹	Assets	31.03.16 ₹	31.03.17 ₹
Share Capital	4,60,000	4,60,000	Land & Building	3,00,000	3,00,000
Profit & Loss Balance	32,000	46,000	Machinery	1,04,000	1,40,000
Reserve	1,20,000	1,20,000	Investments	2,20,000	1,48,000
8% Debentures	1,80,000	1,40,000	Stock	1,64,000	2,12,000
Depreciation Fund	80,000	88,000	Debtors	1,34,000	86,000
Creditors	2,06,000	1,92,000	Cash	1,80,000	1,80,000
Outstanding expenses	26,000	24,000	Prepaid expenses	2,000	4,000
	11,04,000	10,70,000		11,04,000	10,70,000

Additional Information:

- 10% Dividend was paid during 2016-17.
- Old Machinery costing ₹ 24,000 (accumulated depreciation ₹ 12,000) was sold for ₹ 8,000.
- 40,000 8% Debenture were redeemed by purchase from open market at ₹ 96 for a debenture of ₹ 100 on 31.03.2017.
- Investments worth ₹ 72,000 were sold at book value.
- Bad debt written off during the year ₹ 10,000.

Prepare a Statement of Cash Flow for the year ended 31.03.2017.

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- (b) Given below are details of interest on advance of a Commercial Bank as on 31.03.2017:

Particulars	Interest Earned (₹ in Crore)	Interest Received (₹ in Crore)
Performing Assets		
Term Loan	120	80
Cash Credit and Overdraft	750	620
Bills Purchased and Discounted	150	150
Non-Performing Assets		
Term Loan	75	5
Cash Credit and Overdraft	150	12
Bills Purchased and Discounted	100	20

Find out the income to be recognized for the year ended 31st March, 2017.

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4. ABC Limited has an authorized capital of ₹ 5,00,000 divided into 5000 equity shares of ₹ 100 each. On 31.03.2018, 2500 shares were fully called up.

The following are the balance extracted from the ledger of the company as on 31.03.2018:

	₹		₹
Inventory	50,000	Advertisement	3,800
Sales	4,25,000	Bonus	10,500
Purchases	3,00,000	Accounts receivable	38,700
Productive wages	70,000	Accounts payable	35,200
Discount allowed	4,200	Plant and Machinery	80,500
Discount received	3,150	Furniture	17,100
Insurance (year up to 30.06.2018)	6,720	Cash at bank	1,30,000
Salaries	18,500	Cash in hand	4,700
Rent	6,000	Reserves	25,000
General expenses	8,950	Loan from Managing Director	15,700
Profit and Loss a/c (cr.)	6,220	Bad debts	3,200
Printing and Stationary	2,400	Calls in arrears	5,000
		Share capital	2,50,000

Also the following information are given:

- Closing inventory is ₹ 91,500
- Depreciation to be charged on plant and furniture at 15% and 10% respectively
- Outstanding liabilities—wages at ₹ 5,200, salaries at ₹ 1,200 and rent at ₹ 600
- Salesman are entitled to a commission of 1% on sales
- ₹ 4,000 are to be transferred to General reserves
- Dividend on paid up share capital is to be provided @5%

You are required to prepare Profit and Loss Statement for the year ended 31.03.2018 and the Balance Sheet as on that date in accordance with the Companies Act, 2013 in the Vertical Form along with the Notes on Accounts.

5. Write short notes on (*any three*):

4×3=12

- (a) Geographical Segment as per AS-17
- (b) Advantages of buy-back of shares
- (c) Distinguish between Life and Non-Life Insurance
- (d) Share Application money pending allotment

Section-B

(Auditing)

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

6. (a) Identify the correct alternative in each of the following cases:

1×6=6

- (i) If the Debentures are issued as collateral security either to Banks or Creditors the Auditor needs to ensure that such issue is approved by
 - (A) Shareholders
 - (B) Board of Directors
 - (C) Debenture Trustee
 - (D) Audit Committee
- (ii) 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
- (iii) Current Audit files contains
 - (A) Articles of Association and Memorandum of Association
 - (B) Analysis of significant ratios and trends
 - (C) Notes regarding significant Accounting policies
 - (D) Audit Programme

- (iv) Form for maintenance of Cost Records of a Company is
- (A) CRA-1
 - (B) CRA-2
 - (C) CRA-3
 - (D) CRA-4
- (v) Secretarial Audit is applicable to every Public Company having a turnover of
- (A) ₹ 100 crores
 - (B) ₹ 150 crores
 - (C) ₹ 250 crores
 - (D) ₹ 200 crores
- (vi) Statutory Auditor is appointed by the Shareholders in the
- (A) General Meeting
 - (B) Statutory Meeting
 - (C) EGM
 - (D) Board Meeting

- (b) Match the following items in Column 'A' with items shown in Column 'B': 1×4=4

	Column 'A'		Column 'B'
1.	Independent appraisal activity	A	Secretarial Audit Report
2.	SA 700	B	Section 123
3.	Form MR3	C	Internal Audit
4.	Declaration of dividend	D	Forming an opinion and reporting on financial statements

- (c) State whether the following statements are True or False: 1×4=4
- (i) Section 70 deals with the Audit of Debenture.
 - (ii) An Audit Committee should have 4 directors.
 - (iii) CARO — Companies (Auditor's Report) order, 2016 is applicable to Banking Companies.
 - (iv) Internal Check is part of Accounting Control.

7. (a) Distinguish between Permanent and Current Audit File. 6
(b) "Internal Audit is an important tool for the management."—Discuss. 6
8. (a) Discuss the provisions of Companies Act, 2013 as regards reporting of frauds by Company Auditor. 6
(b) Discuss about the manner in which rotation of Auditors may be done by the company on expiry of their term. 6
9. (a) What is the procedure to be followed for fixing the remuneration of a Cost Auditor? 5
(b) Distinguish between 'Audit Report' and 'Audit Certificate'. 7
10. Write short notes (*any three*): 4×3=12
(a) Responsibility of a Joint Auditor
(b) Elements of 'cost of inventory' as per AS 2
(c) Audit of Education Institutions
(d) Auditor's duty regarding Issue of Debentures
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