

INTERMEDIATE EXAMINATION

June 2019

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 instructions 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) Profit on forfeiture and re-issue of equity shares is credited to
- (A) Dividend Equalization Reserve
 - (B) General Reserve
 - (C) Capital Reserve
 - (D) Securities Premium
- (ii) In a Balance Sheet prepared under Schedule III of Companies Act, 2013, 'Share application money pending allotment' shall be shown
- (A) under Shareholder's Fund
 - (B) under Non-current Liabilities
 - (C) under Current Liabilities
 - (D) as a separate line item.
- (iii) In case of Cash Flow Statement prepared under Direct Method, decrease in current liabilities is
- (A) added to cash flow from operating activities
 - (B) deducted to cash flow from operating activities
 - (C) added to cash flow from investing activities
 - (D) None of the above

- (iv) For calculation of depreciation, Central Electricity Regulatory Commission has recommended
- (A) Straight Line Method
 - (B) Optimized Depreciated Replacement Cost Method
 - (C) Written Down Value Method
 - (D) Both (A) and (B)
- (v) In case of Electricity Company while calculating depreciation for the purpose of tariff as per Regulation 21, the salvage value of the Asset shall be considered as
- (A) 3%
 - (B) 5%
 - (C) 10%
 - (D) None of the above
- (vi) As per Section 52 of Companies Act 2013, Securities Premium A/c cannot be used
- (A) to issue fully paid up bonus shares
 - (B) to pay interim dividend
 - (C) to write off the discount on issue of debentures
 - (D) to write off the premium on redemption of preference shares

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

| | Column 'A' | | Column 'B' |
|----|----------------------------------|----|---|
| 1. | Underwriting | A. | Issue and Redemption of Preference shares |
| 2. | Borrowing Cost | B. | Firm |
| 3. | Dividend and interest | C. | Qualifying Assets |
| 4. | Section 55 of Companies Act 2013 | D. | Investing Activity |

- (c) State whether the following statements are *True* or *False*: 1×4=4
- (i) Buy-back of shares can also be made out of the proceeds of the earlier issues of the same kind of shares.
 - (ii) Transfer to Capital redemption reserve account is not allowed from Dividend Equalization Fund.
 - (iii) Operating Lease is a lease which transfers substantially all the risks and rewards incidental to ownership.
 - (iv) Machinery purchased by issuing shares is shown under Cash Flow from Investments Activities in Cash Flow Statement.

2. (a) A company issued 1,50,000 shares of ₹ 10 each at a premium of ₹ 10. The entire issue was underwritten as follows:

A – 90000 shares (Firm underwriting 12000 shares)

B – 37500 shares (Firm underwriting 4500 shares)

C – 22500 shares (Firm underwriting 15000 shares)

Total applications received by the company (excluding firm underwriting and marked applications) were 22500 shares.

The marked applications (excluding firm underwriting) were as follows:

A – 15000 shares; B – 30000 shares; C – 7500 shares

Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters.

- (i) Determine the liability of each underwriter (number of shares)
(ii) Compute the amount payable or due to underwriters.

- (b) A Ltd. has taken the assets on lease from X Ltd. The following information is given below:

Lease Term = 3 years

Fair value at inception of lease = ₹ 14,00,000

Lease Rent = ₹ 6,00,000 p.a. at the end of each year

Guaranteed Residual Value = ₹ 44,000

Implicit Interest Rate = 15% p.a.

Calculate the value of the asset to be considered by A Ltd. and the interest (finance charges) in each year.

Present value of ₹ 1.00 at 15% is given below:

| Year | 1 | 2 | 3 |
|------------|-------|-------|-------|
| PVIF (15%) | 0.869 | 0.756 | 0.657 |

(5+2)+5=12

Please Turn Over

3. (a) Prepare the fire Insurance Revenue Account of Agni Fire Insurance Ltd. as per IRDA regulations for the year ended 31st March, 2019 from the following details:

| Particulars | Amount (₹) |
|---|------------|
| Claims paid | 6,00,000 |
| Legal Expenses regarding claims | 10,000 |
| Premiums received | 12,50,000 |
| Re-insurance premium paid | 50,000 |
| Commission | 3,00,000 |
| Expenses of Management | 2,00,000 |
| Provision against unexpired risk as on 1st April 2018 | 5,75,000 |
| Claims unpaid on 1st April, 2018 | 50,000 |
| Claims unpaid on 31st March, 2019 | 80,000 |

Provide for unexpired risk @ 50% less reinsurance.

- (b) From the following information find out the amount of provisions required to be made in the Profit & Loss Account of a Commercial Bank for the year ended 31st March, 2019:

(i) Credit outstanding for ₹ 80 lakhs against which the Bank holds securities worth ₹ 20 lakhs. 50% of the above advance is covered by ECGC. The above advance has remained doubtful for more than 3 years.

(ii) Other advances:

| Assets classification | ₹ in lakhs |
|-----------------------|------------|
| Standard | 2,500 |
| Sub-standard | 1,800 |
| <i>Doubtful:</i> | |
| For one year | 750 |
| For two years | 600 |
| For three years | 500 |
| For more than 3 years | 350 |
| Loss assets | 600 |

4. The following is the Trial Balance of Pioneer Limited as on 31.03.2019:

| Particulars | | Debit (₹) | Credit (₹) |
|---|----------|------------------|------------------|
| Equity Capital (Face value of ₹ 100) | | — | 10,00,000 |
| Calls in Arrears | | 1,000 | — |
| Land | | 2,00,000 | — |
| Building | | 3,50,000 | — |
| Plant & Machinery | | 5,25,000 | — |
| Furniture & Fittings | | 50,000 | — |
| General Reserve | | — | 2,10,000 |
| Loan from State Financial Corporation | | — | 1,50,000 |
| Inventory: | | | |
| Finished Goods | 2,00,000 | | |
| Raw Materials | 50,000 | 2,50,000 | — |
| Provision for taxation | | — | 68,000 |
| Trade Receivables | | 2,00,000 | — |
| Advances | | 42,700 | — |
| Dividends Payable | | — | 60,000 |
| Profit & Loss A/c | | — | 86,700 |
| Cash Balance | | 30,000 | — |
| Cash at Bank | | 2,47,000 | — |
| Loans (unsecured) | | — | 1,21,000 |
| Trade Payables (For Goods and Expenses) | | — | 2,00,000 |
| Total | | 18,95,700 | 18,95,700 |

Additional information:

- (i) 2000 equity shares were issued for consideration other than cash.
- (ii) Trade Receivables of ₹ 52,000 are due for more than six months.
- (iii) (a) The cost of assets: 31.03.2019 (b) Depreciation till 31.03.2019
- | | | | |
|-------------------|--------------|----------------------|--------------|
| Building | — ₹ 4,00,000 | Building | — ₹ 50,000 |
| Plant & Machinery | — ₹ 7,00,000 | Plant & Machinery | — ₹ 1,75,000 |
| Furniture | — ₹ 62,500 | Furniture & Fittings | — ₹ 50,000 |

Please Turn Over

- (iv) The balance of ₹ 1,50,000 in the loan account with State Financial Corporation is inclusive of ₹ 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant & Machinery.
- (v) Balance at bank includes ₹ 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.
- (vi) The company had contract for the erection of machinery at ₹ 1,50,000 which is still incomplete.

You are required to prepare Pioneer Limited's Balance Sheet as at 31.03.2019 as per Schedule III in accordance with the Companies Act, 2013 in the Vertical Form along with the Notes to Accounts. Ignore previous years' figures. 12

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

- (a) Reasons for preparation of Cash Flows
- (b) Differences between Shares & Debentures
- (c) Surrender Value of a Life Insurance Policy
- (d) Finance Lease

Section-B
(Auditing)

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

6. (a) Choose the correct answer from the *four* alternatives given: 1×6=6

- (i) A nomination and remuneration committee should have _____ directors.
 - (A) 5
 - (B) 10
 - (C) 2
 - (D) 3
- (ii) An individual auditor who has completed his term shall not be eligible for reappointment as auditor in the same company for
 - (A) Next 3 Years
 - (B) Next 5 Years
 - (C) Next 7 Years
 - (D) Next 8 Years

- (iii) Proving the truth means vouching of _____.
- (A) payment
(B) expenses
(C) assets
(D) liabilities
- (iv) Secretarial Audit is applicable to the Public Company having the paid-up share capital of ₹ _____.
- (A) 50 crore
(B) 75 crore
(C) 100 crore
(D) 200 crore
- (v) Internal Control Questionnaire contains the questions which need to be followed by the _____.
- (A) Employer of the organisation
(B) Employee of the organisation
(C) Auditor of the entity
(D) Banker to the organisation
- (vi) Declaration of dividend is covered under section _____ of the Companies Act, 2013.
- (A) 122
(B) 123
(C) 124
(D) 125

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

| | Column 'A' | | Column 'B' |
|----|------------------------------------|----|--|
| 1. | CRA-1 | A. | Audit Sampling |
| 2. | Verification | B. | Maintenance of Cost Records by the Company |
| 3. | SA 530 | C. | Comptroller and Auditor General of India |
| 4. | The authority for Government Audit | D. | Proving the truth |

- (c) State whether the following statements are *true* or *false*: 1×4=4
- (i) An Audit notebook is a bound book in which a large variety of matters observed during the course of audit are recorded.
 - (ii) The concept of true and fair is a fundamental concept in auditing.
 - (iii) First auditor of the company is appointed by the Board of Directors within 45 days from the date of first AGM.
 - (iv) A Statutory Audit is an official investigation into alleged wrong doing.
7. (a) What do you mean by Audit Programme? Discuss the various advantages of an Audit Programme.
- (b) Discuss different types of internal control systems with example. (1+5)+6=12
8. (a) Discuss the rights of an auditor according to the Companies Act, 2013.
- (b) How can an auditor, who is appointed under section 139 of the Companies Act, 2013, be removed from his office before the expiry of his term? 8+4=12
9. (a) With reference to the Companies (Cost Records and Audit) Rules, 2014 as amended, discuss the following:
- (i) Submission of cost audit report to the Board of Directors by the Cost Auditor
 - (ii) Applicability of rotation to Cost Auditors
 - (iii) Remuneration of a Cost Auditor
- (b) “Disclaimer of Opinion and Adverse Report do not serve the same purpose”. Discuss. (2+2+3)+5=12
10. Write short notes (*any three*): 4×3=12
- (i) Auditor’s duty regarding interim dividend
 - (ii) Audit of Property, Plant and Equipment
 - (iii) Audit of a Charitable Trust
 - (iv) Audit of alteration of Share Capital
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