

## **Paper 12- Company Accounts & Audit**

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**Full Marks: 100**

**Time allowed: 3 hours**

**Section – A (Company Accounts)**

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

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

- (i)** Which of the following item is not a part of cash flow from operating activities?
- (a) Collection from customers
  - (b) Payment to suppliers of machinery
  - (c) Payment of outstanding wages
  - (d) Advances to foreign suppliers for raw materials
- (ii)** A \_\_\_\_\_ share is a free share issued without any consideration to an existing shareholder in the ratio of number of shares held by that shareholder.
- (a) Bonus
  - (b) Sweat Equity
  - (c) Preference
  - (d) None of the above
- (iii)** Transfer to capital redemption reserve account is allowed from which of these profits?
- (a) Insurance fund
  - (b) Workmen's compensation fund
  - (c) Workmen's accident fund
  - (d) All of the above
- (iv)** A company is a voluntary and autonomous association of certain persons with capital divided into numerous transferable \_\_\_\_\_ formed to carry out a particular purpose in common.
- (a) Debentures
  - (b) Shares
  - (c) Dividends
  - (d) None of the above
- (v)** Which of the following is the advantages of buy-back
- (a) A company with capital, which cannot be profitably employed, may get rid of it by resorting to buy-back, and re-structure its capital.
  - (b) Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax
  - (c) Both (a) and (b)
  - (d) None of the above

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(vi) If the maturity of debentures is more than \_\_\_\_ months, the company has to appoint debenture trustees to safeguard the interests of the debenture holders.

- (a) 18
- (b) 12
- (c) 6
- (d) 1

(b) Match the following:

[4×1=4]

|    | Column 'A'                 |    | Column 'B'                                     |
|----|----------------------------|----|------------------------------------------------|
| 1. | AS 11                      | A. | Transfer to capital redemption reserve account |
| 2. | Section 33                 | B. | Issue of Sweat Equity Shares                   |
| 3. | Section 54                 | C. | Exchange difference                            |
| 4. | Dividend equalisation fund | D. | Issue of Application Forms for Securities      |

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

[4×1=4]

- (i) A debenture holder may receive dividend only when a company makes a profit.
- (ii) When a company purchases its own shares out of free reserves a sum equal to the nominal value of the shares so purchased shall be transferred to the general reserve account.
- (iii) Debenture is an instrument to acknowledge the creditors of the company.
- (iv) When a share is issued at a value greater than its face value it is said to be issued at a premium.

2. (a) Swastika Ltd. has issued 10,000 12% Debentures of ₹100 each on 1.4.2014. These debentures are redeemable after 3 years at 5% premium. Interest is payable annually on March 31. On 1.10.15 it purchases 1500 own Debentures from the market at ₹ 98 (Cum. Int.). These are sold away on 30.6.16 at 105 (cum). On 1.1.16, it buys 1000 Own Debentures at 104 (cum) and cancelled on 30.06.16. On 1.10.16 it buys 2000 own Debentures at ₹102 (ex-int) per Debenture for immediate cancellation. Other Debentures are redeemed on 31.03.17. Give necessary Journal entries for the years 2014-15, 2015-16 & 2016-17. [8]

(b) On 20.4.2016, M Ltd obtained a loan from the bank for ₹ 75 lakhs to be utilised as:

| Particulars                       | ₹ (in lakhs) |
|-----------------------------------|--------------|
| Construction of a factory         | 30           |
| Purchase of Machinery             | 25           |
| Working Capital                   | 15           |
| Advance for purchase of Furniture | 5            |

In March 2017, construction of factory was completed and machinery installed. Delivery of furniture was not received. Total interest charged by the bank for the year ending 31.3.2017 was ₹ 10 lakhs.

Show the treatment of interest under AS 16.

[4]

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3. (a) The following information is available in the books of a Bank, as on 31<sup>st</sup> March, 2018:

| Particulars                                   | Rate of Discount |
|-----------------------------------------------|------------------|
| Bills Discounted                              | 1,37,05,000      |
| Rebate on Bills Discounted (as on 01.04.2017) | 2,21,600         |
| Discount Received                             | 10,56,650        |

Details of Bills Discounted are as follows:

| Value of Bills (₹) | Due Date   | Rate of Discount |
|--------------------|------------|------------------|
| 18,25,000          | 05.06.2018 | 12%              |
| 50,00,000          | 12.06.2018 | 12%              |
| 28,20,000          | 25.06.2018 | 14%              |
| 40,60,000          | 06.07.2018 | 16%              |

Calculate the Rebate on Bills Discounted as on 31.03.2018, and give necessary journal entries in the books of the Bank as on 31<sup>st</sup> March, 2018. [7]

- (b) From the following information, calculate Net Profit before Taxation and Extraordinary item:

| Particulars           | Closing<br>₹ | Opening<br>₹ |
|-----------------------|--------------|--------------|
| Profit & Loss Account | 2,24,000     | 24,000       |
| Reserve               | 2,25,000     | 75,000       |
| Proposed Dividend     | 48,000       | 40,000       |

Additional information are:

- Refund of Tax- ₹1500
- Provision for tax made during the current year- ₹70,000
- Interim Dividend paid during the year- ₹60,000
- Loss due to Earthquake- ₹3,00,000
- Insurance Proceeds from earthquake disaster settlement- ₹1,50,000

[5]

4. From the details given below prepare Balance Sheet of R Ltd. as at 31<sup>st</sup> March, 2019 as per the Schedule III to The Companies act 2013:

|                                                     | ( ₹ in "000) |
|-----------------------------------------------------|--------------|
| P & L A/c (Dr.)                                     | 50           |
| 12% Debentures                                      | 300          |
| Proposed Dividend                                   | 20           |
| Equity Share Capital (₹ 10 each)                    | 1,750        |
| Cheques & Drafts on Hand                            | 48           |
| 15% Pref. Share Capital( ₹ 100 each)                | 1,250        |
| Prepaid Expenses                                    | 50           |
| Bank Overdraft                                      | 65           |
| Interest accrued on Debentures of JK Steels         | 12           |
| Building under Construction                         | 185          |
| 2500, 12% JK Steel Deb. of ₹ 100 each, ₹ 80 paid up | 200          |

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|                                                                |       |
|----------------------------------------------------------------|-------|
| Premium on Red. of Debentures                                  | 90    |
| Application money pending allotment                            | 40    |
| Bills Payables                                                 | 75    |
| Calls-in-Advance                                               | 5     |
| Employees' earned leave payable on Retirement                  | 45    |
| Stores & Spares                                                | 50    |
| Securities Deposit for Telephone                               | 25    |
| Brands                                                         | 210   |
| Computer Software under Development                            | 20    |
| Bills Receivables                                              | 270   |
| Plant & Machinery                                              | 2,220 |
| 12% Debentures of Reliance Ltd. (20% Redeemable within 1 year) | 100   |
| Investment in Land & Building                                  | 200   |

Note: Bills Discounted but not yet matured ₹ 60,000, Dividend on Preference Shares are in arrears for 2 years. [12]

**5. Write short note (any three):** [3×4=12]

- (a) Accounting treatment of Borrowing Costs as per AS 16
- (b) Escrow Account
- (c) Provisioning Arrangements for Non-Performing Assets
- (d) Importance of Cash flows

### 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 given four alternatives:** [6×1=6]

- (i) Secretarial Audit is covered under
  - (a) Section 204
  - (b) Section 148
  - (c) Section 139
  - (d) None of the above
- (ii) Audit Procedures to obtain audit evidences include
  - (a) Compliance Procedure
  - (b) Substantive Procedure
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
- (iii) An effective internal control system consists of which of the following steps?
  - (a) Control Environment
  - (b) Assessment of Risk
  - (c) Control Activities
  - (d) All of the above

(iv) SA 230 is related to which of the following?

- (a) Audit Documentation
- (b) Audit Planning
- (c) Appointment of auditors
- (d) None of the above

(v) USEPA stands for

- (a) United States Environmental Practice Agency
- (b) United States Environmental Protection Agency
- (c) United States Environmental Protection Agreement
- (d) United States Efficient Protection Agency

(vi) Transaction Audit contains which of the following

- (a) Expenditure Audit & Receipts Audit
- (b) Expenditure Audit & Income Audit
- (c) Payments Audit & Receipts Audit
- (d) None of the above

(b) Match the following:

[4×1=4]

|    | Column 'A'                                             |    | Column 'B'                        |
|----|--------------------------------------------------------|----|-----------------------------------|
| 1. | To ensure that expenditure is made according to limit. | A. | Using the work of another Auditor |
| 2. | CRA 2                                                  | B. | Cannot be its Cost Auditor        |
| 3. | SA 600                                                 | C. | Audit against provision of funds  |
| 4. | Internal auditor                                       | D. | Appointment of Cost Auditor       |

(c) Say True or False for the following question:

[4×1=4]

- (i) An audit report should have a proper title.
- (ii) Test checking depends upon the statistical technique applied.
- (iii) Operational Audit is process based.
- (iv) A voucher is a piece of substantiating evidence, in the form of a written record of expenditure, disbursement, or completed transaction.

7. (a) List the Methods to Obtain Audit Evidence. [5]

(b) Internal audit is an important management tool. Discuss. [7]

8. (a) Discuss the provisions for reporting of Fraud by Auditor. [9]

(b) Discuss the provisions for re-appointment of retiring auditor. [3]

9. (a) What is the procedure to be followed for fixing the remuneration of a cost auditor? [4]

(b) What are the features of a Qualified Report? [8]

10. Write short notes on (any three):

[3×4=12]

- (a) Responsibility of Joint Auditor.
- (b) Auditing and Assurance Standards Relating to Audit of Fixed Assets.
- (c) Audit of Capital Reserve and Surplus of Banks
- (d) Audit of Alteration of Share Capital.