

Roll No.....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

NOTE : 1. Answer **ALL** Questions.

2. All working notes should be shown distinctly.

PART – A

1. (a) State the order of payment to be followed by liquidator.
- (b) State the drawbacks of adopting shareholder value added (SVA) approach.
- (c) Prosperous Bank has a criterion that it will give loans to companies that have an economic value added (EVA) greater than zero for the past three years on an average. The bank is considering lending money to a small company that has the economic value characteristics shown below :
 - (i) Average operating income after tax equals to ₹25,00,000 per year for the last 3 years.
 - (ii) Average total assets over the last 3 years equals ₹75,00,000.
 - (iii) Weighted average cost of capital appropriate for the company is 10%, applicable for all 3 years.
 - (iv) The company's average current liabilities over the past 3 years are ₹15,00,000.Does the company meet the bank's criterion for a positive EVA ? Show your workings.
- (d) State the purposes for which balance in the securities premium account may be applied.
- (e) Explain the procedure for reduction of share capital.

(5 marks each)

Attempt all parts of either Q.No. 2 or Q.No. 2A

2. (a) Explain the convergence of Indian Accounting Standards (IAS) with International Financial Reporting Standards (IFRS).
- (b) Differentiate between 'net assets method' and 'net payment method' of computation of purchase consideration for accounting for amalgamation.

- (c) Discuss the circumstances under which valuation of shares is necessary.
- (d) What are the key features of statement of profit and loss as per Schedule III of the Companies Act, 2013 ?
- (e) From the following particulars, calculate goodwill on the basis of 3 years purchase of super profits :
- | | | |
|--|------|--------------------------|
| (i) Capital employed | : | ₹50,000 |
| (ii) Trading profit (<i>after tax</i>) : | 2011 | : ₹12,200 |
| | 2012 | : ₹15,000 |
| | 2013 | : ₹2,000 (<i>loss</i>) |
| | 2014 | : ₹21,000 |
- (iii) Normal rate of interest on investment: 10 % p.a.
- (iv) Remuneration from alternative employment: ₹3,600 p.a. (included in above profit).

(3 marks each)

OR (Alternate question to Q.No. 2)

- 2A.** (i) What are the disclosure requirements as per AS-18 for a related party transaction ?
- (ii) Under what circumstances, an amalgamation is classified as an 'amalgamation in the nature of merger' ?
- (iii) The following balances appeared in the books of Bright Ltd. as on 1st April, 2013 :
- | | |
|-------------------------------------|--|
| (a) Sinking fund account | ₹50,000 |
| (b) Sinking fund investment account | ₹48,000 (10% government securities, nominal value ₹45,000) |
| (c) 12% Debenture account | ₹1,00,000. |

The company sold ₹30,000 government securities at 110% and redeemed part of the debentures at a premium of 10% on 1st April, 2013.

Show debenture account, sinking fund account, sinking fund investment account and debentureholders account.

(5 marks each)

3. (a) Following is the balance sheet of Tulika Ltd. as on 31st March, 2014 :

As on
31st March,
2014
(₹)

I. EQUITY AND LIABILITIES

(1) Shareholders' funds			
(a) Share capital			
Authorised capital			
20,000 equity shares of ₹10 each			2,00,000
Issued, subscribed and paid-up capital			
12,000 equity shares of ₹10 each		1,20,000	
Less: Calls in arrear			
(₹3 per share on 3,000 shares)		<u>9,000</u>	1,11,000
(b) Reserves and surplus			
Surplus as per last balance sheet (<i>loss</i>)		(22,000)	
Add: profit for the year		<u>1,200</u>	(20,800)
(2) Current liabilities			
(a) Trade payables			15,425
(b) Other current liabilities (provision for taxes)			4,000
TOTAL			<u><u>1,09,625</u></u>

II. ASSETS

(1) Non-current Assets			
(a) Fixed assets			
(i) Tangible assets			
Land and building			20,500
Machinery			50,850
(ii) Intangible assets			
Goodwill			10,000
(2) Current Assets			
(a) Inventories			10,275
(b) Trade receivables			15,000
(c) Cash and cash equivalents			1,500
(d) Other current assets (preliminary expenses)			1,500
TOTAL			<u><u>1,09,625</u></u>

The directors have found that the valuation of the machinery was overvalued by ₹10,000. It is proposed to write down these assets to its true value and to extinguish the deficiency in the statement of profit and loss and to write-off goodwill and preliminary expenses by adoption of the following schemes :

- (i) Forfeit the shares on which the calls are outstanding
- (ii) Reduce the paid-up capital by ₹3 per share
- (iii) Re-issue of forfeited shares at ₹5 per share
- (iv) Utilise the provision for taxes, if necessary

The shares on which the calls were in arrear were duly forfeited and re-issued as fully paid-up shares of ₹7 each on payment of ₹5 per share.

You are required to pass necessary journal entries.

(5 marks)

- (b) Green Ltd. was established on 1st August, 2013 and received its certificate of commencement of business on 1st November, 2013. The company bought the business of Purple & Co. with effect from 1st April, 2013. From the following information for the year ended on 31st March, 2014, find out the profit available for dividends :

- (i) Sales for the year ₹12,00,000 out of which sales upto 1st August, 2013 was ₹5,00,000
- (ii) Gross profit for the year was ₹3,60,000
- (iii) Expenses shown in the statement of profit and loss were as under :

	₹
Salaries	24,000
Rent	12,000
Audit fee	12,000
Directors' fee	9,600
Interest on debentures	10,000
Commission	19,200
Depreciation	51,000
General expenses	16,800
Bad debts (₹1,000 prior to incorporation)	3,000

(5 marks)

: 5 :

(c) Time Ltd. went into liquidation on 31st March, 2014 and its position on that date was as under :

- (i) 50,000, 10% Preference shares of ₹10 each fully paid
- (ii) 70,000 Equity shares of ₹10 each fully paid
- (iii) 60,000 Equity shares of ₹5 each, ₹3 per share paid
- (iv) Calls-in-arrear ₹20,000
- (v) Calls received in advance ₹17,000
- (vi) Preference dividend is in arrear for 1 year.

Amount left with the liquidator after discharging all liabilities is ₹6,27,000. Preference dividend in arrear is to be paid in priority to the equity capital.

Prepare liquidator's final statement of accounts.

(5 marks)

4. (a) Prepare the consolidated balance sheet from the following balance sheets of H. Ltd. and S. Ltd. :

		(₹ in '000)	
		H. Ltd.	S. Ltd.
<i>I. EQUITY AND LIABILITIES</i>			
(1)	Shareholders' funds		
(a)	Share capital		
	Equity shares of ₹10	10,000	2,000
(b)	Reserves and surplus		
	Reserve fund	1,000	600
	Surplus	4,000	1,200
(2)	Current liabilities		
(a)	Trade payables	2,000	1,200
(b)	Other current liabilities (bills payable)	—	300
	TOTAL	17,000	5,300

		(₹ in '000)	
		H. Ltd.	S. Ltd.
<i>II. ASSETS</i>			
(1)	Non-current Assets		
	(a) Sundry assets	8,000	1,200
	(b) Investments (1,50,000 equity shares in S Ltd. at cost)	1,500	—
(2)	Current Assets		
	(a) Inventories	6,100	2,400
	(b) Trade receivables	1,300	1,700
	(c) Other current assets (bills receivables)	100	—
TOTAL		17,000	5,300

Following additional information is also given :

- (i) S. Ltd. has earned all the profits only since the above 1,50,000 shares were acquired by H. Ltd.
- (ii) On the date of acquisition of these 1,50,000 shares by H. Ltd., S. Ltd. had balance in the reserve fund of ₹6,00,000.
- (iii) The bills payable of S. Ltd. were in favour of H. Ltd. which had discounted ₹2,00,000 of them.
- (iv) Sundry assets of S. Ltd. were undervalued by ₹2,00,000. Stock of H. Ltd. includes goods of ₹5,00,000 purchased from S. Ltd. on which S. Ltd. made a profit of 25% on cost.

(8 marks)

- (b) Rose Ltd. is taking over entire business of Lily Ltd. on the basis of following balance sheets as at 31st March, 2014 :

		Rose Ltd. (₹)	Lily Ltd. (₹)
<i>I. EQUITY AND LIABILITIES</i>			
(1)	Shareholders' funds		
	(a) Share capital		
	Equity shares of ₹10 each, fully paid	10,80,000	8,06,600
	(b) Reserves and surplus		
	General reserve	1,72,000	1,09,980
	Surplus	1,32,000	87,000
(2)	Current liabilities		
	Trade payables	88,800	1,16,400
TOTAL		14,72,800	11,19,980

: 7 :

	<i>Rose Ltd.</i>	<i>Lily Ltd.</i>
	(₹)	(₹)
II. ASSETS		
(1) Non-current Assets		
(a) Fixed assets		
(i) Tangible assets (Plant)	4,20,000	3,20,000
(ii) Intangible assets (Goodwill)	1,00,000	70,000
(2) Current Assets		
(a) Inventories	1,83,000	1,65,000
(b) Trade receivables	5,73,800	3,45,800
(c) Cash and cash equivalents	1,96,000	2,19,180
TOTAL	<u>14,72,800</u>	<u>11,19,980</u>

Further Information :

- (a) Plant of Rose Ltd. and Lily Ltd. is worth ₹3,90,000 and ₹3,50,000 respectively.
- (b) Goodwill of Rose Ltd. and Lily Ltd. is to be valued at ₹1,50,000 and ₹1,00,000 respectively.
- (c) Stock of Lily Ltd. is over-valued by 10% above its cost.
- (d) Rose Ltd. is taking over Lily Ltd. by issue of shares at the intrinsic value.
- (e) All the assets and liabilities of Lily Ltd. were incorporated in the books of Rose Ltd. at fair value and assets and liabilities of Rose Ltd. have been carried at carrying values only.

You are required to prepare post absorption balance sheet of Rose Ltd.

(7 marks)

PART – B

5. (a) Explain the penal provisions applicable to auditors under the Companies Act, 2013.
- (b) What are the important matters which an auditor should ensure to ascertain and establish true and fair view ?
- (c) Differentiate between 'secretarial audit' and 'internal audit'.

(5 marks each)

Attempt all parts of either Q.No. 6 or Q.No. 6A

6. (a) Explain the procedure of fraud reporting by an auditor as per the Companies Act, 2013.
(b) What are the techniques of internal control system ? Discuss with examples.
(c) What is audit in-depth ? Mention the various stages in purchase of goods.

(5 marks each)

OR (Alternate question to Q.No. 6)

- 6A. (i) What are the points for consideration in audit planning in relation to the audit engagement ?
(ii) What precautions should be taken while adopting test checking ?
(iii) Distinguish between 'audit' and 'investigation'.

(5 marks each)

—————0—————