Roll No.....................................

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 12***

NOTE : *1. Answer **ALL** Questions.*
2. All working notes should be shown distinctly.

PART–A

1. (*a*) What are the minimum disclosure of notes and explanatory statements should be required as per AS-25 "Interim Financial Reporting" ?

(*5 marks*)

(*b*) State the conditions for payment of underwriting commission as per the Companies (Prospectus and Allotment of Securities) Rule, 2014.

(*5 marks*)

(*c*) Classify the following into either operating or finance lease :

(*i*) Lessee has option to purchase the asset at lower than the fair value at the end of the lease term.

(*ii*) Lease income is being recognized in the statement of Profit and Loss Account by the lessor.

(*iii*) Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term.

(*iv*) The lessor presents the asset in its balance sheet under fixed asset.

(*v*) Economic life of the asset is 6 years, but the asset is of special nature and has been procured only for use of the lease.

(*5 marks*)

(*d*) The following particulars are available in relation to A Ltd. :

(*i*) Equity Share Capital – 8,000 equity shares of ₹ 100 each fully paid.

(*ii*) 2,000, 8% Preference Shares of ₹ 100 each.

(*iii*) Reserve and Surplus – ₹ 2,50,000.

(*iv*) 10% Debentures – ₹ 8,00,000.

(*v*) Profit on revaluation of assets – ₹ 1,84,000.

(*vi*) EBDIT – ₹ 5,48,000.

(*vii*) Depreciation – ₹ 1,00,000.

(*viii*) Income tax rate is 30%.

(*ix*) E/P Ratio (Earning Price Ratio) in the industry is 1/8 and dividend yield is 16%.

(*x*) During the last three years, the company paid dividend at 20%, 19% and 27% respectively.

Calculate the market price of each equity share under Earnings Method and under Dividend Yield Method. (*5 marks*)

(*e*) R Ltd. was incorporated with an authorised capital of ₹ 4,00,00,000 consisting of 20,00,000 equity shares of ₹ 10 each and 2,00,000, 8% preference shares of ₹ 100 each. Other details were as follows :

Issued, Subscribed and paid-up Capital :	₹
10,00,000 Equity Shares of ₹ 10 each	1,00,00,000
1,00,000, 8% Preference Shares of ₹ 100 each	1,00,00,000
	2,00,00,000

The Statement of Profit and Loss of the Company for the year ended 31st March, 2020 showed net profit before tax ₹ 60,00,000. The net profit brought forward from previous year's Balance Sheet amounted to ₹ 12,00,000. The Company makes a provision of 30% for income tax. The dividend distribution tax rate (including surcharge and cess) is 17.304%.

The following appropriation was proposed by the company :

(*a*) to pay dividend on preference shares;

(*b*) to pay final dividend @ 20% to equity shareholders;

(*c*) transfered to general reserve ₹ 4,20,000.

You are required to show the relevant items in the Balance Sheet.

(Showing details in the 'Notes to Accounts').

(*5 marks*)

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

2. (*a*) Give *two* examples on each of the following items :

(*i*) Change in accounting estimate

(*ii*) Extra-ordinary items

(*iii*) Prior period items.

(*3 marks*)

(*b*) Z Ltd. provides you the following information :

Equity Share Capital	₹ 200 lakh
8% Secured Loan	₹ 40 lakh
10% Unsecured Loan	₹ 60 lakh
Total Capital Employed	₹ 300 lakh
Profit After Tax	₹ 31,66,000
Rate of Tax	40%
Cost of Equity	12%

You are required to calculate Economic Value Added for Z Ltd.

(*3 marks*)

(*c*) A company went into liquidation whose creditors are ₹ 36,000 which includes ₹ 6,000 on account of wages of 15 men at ₹ 100 per month for 4 months immediately before the date of winding up; ₹ 9,000 being the salaries of 5 employees at ₹ 300 per month for the previous 6 months; rent for godown for the last six months amounting to ₹ 3,000; Income-tax deducted out of Salaries of employees ₹ 1,000 and Directors fee ₹ 500. In addition it is estimated that the company would have to pay ₹ 5,000 as compensation to an employee for injuries suffered by him, which was contingent liability not accepted by the company and not included in the above said creditors figure. Find the amount of Preferential Creditors.

(*3 marks*)

(*d*) State how you will treat the following transaction while preparing the final accounts of a company for the year ending 31st March, 2020.

(*i*) Subsidy ₹ 2,50,000 received from Government for installing a factory in backward area.

(*ii*) The market value of the quoted investment is ₹ 3,00,000 as against the cost of ₹ 2,75,000.

(*iii*) While preparing the accounts of the previous year closing stock was taken at market price of Rs. ₹ 4,55,000 instead of cost price of ₹ 4,80,000.

(*3 marks*)

(*e*) The following items were extracted from the Balance Sheet of Z Ltd. as on 01.04.2019 :

Particulars	₹
Equity share capital fully paid up	12,00,000
12% preference share capital	5,00,000
Securities premium	6,00,000
13% Debenture	9,00,000

- Profit before interest and tax is ₹ 12,00,000 for the year ended 31.03.2020.
- The Board of Directors of the company declares a dividend of 15% on equity capital on 31.03.2020.
- The Company also decided to transfer for creation of general reserve @ 5% of net profit.
- Tax rate is 30%

Pass necessary journal entries to incorporate the Board's recommendation.

(*3 marks*)

OR (Alternate question to Q. No. 2)

2A. (*i*) RG Ltd. had an authorised equity capital of ₹ 20 lakh divided into shares of ₹ 100 each. The paid-up capital was ₹ 12,50,000. Besides this, the company had 9% Redeemable Cumulative Preference Shares of ₹ 10 each for ₹ 2,50,000. Balance on other accounts were :

Securities Premium	₹ 28,000
Profit and Loss Account	₹ 72,000
General Reserve	₹ 3,40,000

Included in Sundry Assets were investments of the face value of ₹ 30,000 carried in the books at a cost of ₹ 34,000.

The company decided to redeem the cumulative preference shares at 10% premium, partly by the issue of equity shares of the face value of ₹ 1,20,000 at a premium of 10%. Investments were sold at 105% of their face value. All preference shareholders were paid off except 3 holders holding 250 shares. After redemption of the Cumulative Preference Shares, fully paid bonus shares were issued in the ratio of 4 : 1. Give the necessary Journal Entries bearing in mind that the Directors wanted a minimum reduction in free reserves, while effecting the above transactions.

(*5 marks*)

(*ii*) Discuss the circumstances under which evaluation of Goodwill of a Joint Stock Company is necessary.

(*5 marks*)

(*iii*) Mohan Ltd. went into voluntary Liquidation on 31st December, 2018 when the following Balance Sheet was prepared :

Particulars	Amount (₹)
I. EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(*a*) **Share Capital :**	
2,000, 6% Preference Shares of ₹ 100 each	2,00,000
4,000 Equity Shares of ₹ 100 each fully paid	4,00,000
6,000 Equity Shares of ₹ 100 each ₹ 50 paid	3,00,000
(*b*) **Reserves and Surplus**	
Profit & Loss A/c (Dr Balance)	(2,00,000)
(2) Non-Current Liabilities :	
6% Debentures Secured by a floating charge on all Assets	2,00,000
Mortagage Loan on Land and Building	2,00,000
(3) Current Liabilities :	
Sundry Creditors	1,80,000
Income-Tax	20,000
Total	**13,00,000**
II. ASSETS	
(1) Non-Current Assets :	
(*a*) **Tangible Fixed Assets :**	
Land and Building	4,00,000
Plant and Machinery	4,40,000
(2) Current Assets	
Stock	2,00,000
Debtors	2,00,000
Cash at Bank	60,000
Total	**13,00,000**

Preference Shares dividend were in arrear for three years and the arrears are payable on liquidation.

The assets were realised as follows : Land and Building ₹ 4,80,000; Plant and Machinery ₹ 3,60,000; Stock ₹ 1,40,000; Debtors ₹ 1,20,000.

The expenses of liquidation amounted to ₹ 16,000. The liquidator is entitled to a commission at 2% on all assets realised except cash and 3% on amounts distributed to unsecured creditors. All payments were made on 30th June, 2019. Show the Liquidator's Final Statement of Account.

(*5 marks*)

3. (*a*) D Ltd. furnished the following summarised Balance Sheet as at 31st March, 2020 :

Balance Sheet of D Ltd. as at 31st March, 2020

Particulars	**Amount (₹'000)**
I. EQUITY AND LIABILITIES	
(1) Shareholders' Funds :	
(*a*) Share Capital :	
Authorised Share Capital :	
2,50,000 Equity Shares of ₹ 10 each	2,500
5,000 Preference Shares of ₹ 100 each	500
	3,000
Issued & Subscribed Capital :	
2,50,000 Equity Shares of ₹ 10 each fully paid	2,500
2,000, 10% Preference Shares of ₹ 100 each fully paid (issued) for purpose of buy-back)	200
(*b*) Reserves and Surplus :	
Capital Reserve	1,000
General Reserve	3,000
Securities Premium	2,200
Profit & Loss Account	3,500
(2) Current Liabilities :	
(a) Other Current Liabilities	1,400
Total	13,800

II. ASSETS	
(1) Non-Current Assets :	
(a) Fixed Assets	
(i) Tangible Assets	9,300
(2) Current Assets :	
(a) Current Investment	3,000
(b) Cash and Cash Equivalents	1,500
Total	13,800

The Company passed a resolution to buy-back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investment for ₹ 22,00,000. You are required to pass necessary journal entries and prepare the Balance Sheet after buy-back.

(*5 marks*)

(*b*) Sai Deep Industries Private Ltd. was incorporated on 1st February, 2019. It took over the proprietary business of Sai Deep, with effect from 1st January, 2019. The Balance Sheet of Sai Deep as at 31st December 2018 is as follows :

Liabilities	(₹)	Assets	(₹)
Capital	8,63,000	Sundry debtors	51,400
Trade Creditors	34,000	Building	2,20,000
Loans	17,000	Machinery	6,00,000
Creditors for Expenses	5,000	Loss	47,600
	9,19,000		9,19,000

It was agreed to pay ₹ 9,00,000 in equity shares to Sai Deep. The company decided to close its first year's accounts as at 31st December, 2019. The following are the further details furnished to you :

Sales ₹ 6,00,000; Purchase ₹ 2,80,000; Salaries and Wages ₹ 80,000; General expenses ₹ 64,000; Freight ₹ 9,400; Interest paid ₹ 16,000; Inventories ₹ 44,000; Additions to building ₹ 76,000; Depreciation may be provided at 10% on assets including additions. The Gross Profit and all expenses are apportioned on the basis of Time Ratio. The Company has requested you to prepare :

(*i*) The Journal Entries for the take-over;

(*ii*) Sai Deep's Account; and

(*iii*) Statement of Profit and Loss showing separately Pre-incorporation and Post-incorporation Profits for the year ending 31st December, 2019.

(*5 marks*)

(*c*) Due to inadequacy of profit during the year ended 31st March, 2020, Z Ltd proposes to declare 10% dividend out of general reserve.

From the following particulars, ascertain the amount that can be utilised from general reserves, according to the Companies (Declaration of dividend out of reserve) Rules, 2014 :

Particulars	₹
4,00,000 Equity shares of ₹ 10 each, fully paid up	40,00,000
8,750 9% Preference shares of ₹ 100 each, fully paid up	8,75,000
General reserve as on 1.4.2019	12,50,000
Capital reserve as on 1.4.2019	1,50,000
Revaluation reserve as on 1.4.2019	1,75,000
Net profit for the year ended 31st March, 2020	1,50,000
Average rate of dividend during the last 3 years	12%

(*5 marks*)

4. (*a*) On 31st March, 2019 A Ltd. was acquired by X Ltd., which paid ₹ 14,00,000 in all ₹ 12,00,000 in fully paid ₹ 10 shares and the balance in cash. There was a contingent liability in respect of a claim for compensation under the Workman's Compensation Act. The claim was not taken over by X Ltd. and A Ltd. had to pay ultimately a sum ₹ 20,000 against the claim. The balance sheet of A Ltd. and X Ltd. on 31st March, 2019 were as follows :

Particulars	**A Ltd.** (₹)	**X Ltd.** (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(***a***) **Share Capital**		
Equity shares of ₹ 10 each	10,00,000	20,00,000
(***b***) **Reserves and Surplus**		
General Reserve	90,000	2,00,000
Workmen's Accident Compensation	50,000	—
Profit & Loss Account	70,000	1,00,000

(2) Non-Current Liabilities			
(a) 12% Debentures		—	3,50,000
(3) Current Liabilities			
(a) Trade Payables		1,60,000	2,10,000
Total		13,70,000	28,60,000
II. ASSETS			
(1) Non-Current Assets			
(*a*) Fixed Assets – Tangible			
(*i*) Land and Buildings		2,00,000	6,00,000
(*ii*) Plant and Machinery		4,00,000	7,00,000
(*iii*) Furniture and Fittings		40,000	1,00,000
(*b*) Intangible Assets			
(*i*) Goodwill		1,90,000	2,20,000
(*ii*) Patents and Trade Marks		30,000	—
(2) Current Assets			
(*a*) Inventories		2,10,000	5,00,000
(b) Trade Receivables			
(*i*) Debtors	1,80,000		
Less : Provision for Bad Debts	12,000	1,68,000	3,00,000
(c) Cash and Cash Equivalents			
(*i*) Cash at Bank		1,32,000	4,40,000
Total		13,70,000	28,60,000

The expenses of liquidation of A Ltd. came to ₹ 10,000. Draft Journal entries to close the books of A Ltd. and in the books of X Ltd. after the amalgamation in the nature of purchase has been completed.

(*7 marks*)

(*b*) The Balance Sheet of H Ltd. and S Ltd. as on 31.03.2020 were as follows :

Balance Sheets of H Ltd. and S Ltd.
as at 31st March, 2020

Particulars	Note No.	H Ltd. (₹)	S Ltd. (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			

(*a*) Share Capital			
Equity share of ₹ 100 each		6,00,000	2,50,000
(*b*) Reserves and Surplus			
General Reserve		1,00,000	60,000
Profit & Loss Account		1,50,000	90,000
(2) Current Liabilities			
(a) Trade Payables – Creditors		70,000	60,000
(b) Other Current Liabilities - Income Tax		60,000	70,000
Total		**9,80,000**	**5,30,000**
II. ASSETS			
(1) Non-Current Assets :			
(*a*) Fixed Assets			
(*i*) Tangible Assets :			
Machinery		1,50,000	1,08,000
Vehicle		1,30,000	50,000
Furniture		50,000	30,000
(*ii*) Intangible Assets–Goodwill		60,000	40,000
(*b*) Non-current Investment			
2,000 Equity Shares in S Ltd. (at cost)		3,80,000	—
(2) Current Assets :			
(*a*) Inventories - Stock		70,000	1,40,000
(*b*) Trade Receivables - Debtors		60,000	1,00,000
(*c*) Cash and Cash Equivalents - Bank		80,000	62,000
Total		**9,80,000**	**5,30,000**

Additional Information :

(*i*) H Ltd. acquired 2,000 equity shares of S Ltd. on 01.04.2019.

(*ii*) The Profit and Loss Account of S Ltd. had a credit balance of ₹ 30,000 and that of General Reserve ₹ 50,000 on the date of acquisition.

(*iii*) On 01.06.2019 S Ltd. declared a dividend out of its pre-acquisition profits @ 12% on its share capital. H Ltd. credited the same to its Profit and Loss Account.

(*iv*) S Ltd. owned ₹ 20,000 for purchase of stock from H Ltd. The entire stock is held on 31.03.2020. H Ltd. made profit of 25% on cost.

(*v*) Machinery standing in the books of S Ltd. at ₹ 1,20,000 on the date of acquisition of shares, were re-valued at ₹ 1,44,000.

Prepare a consolidated Balance Sheet of H Ltd. and S Ltd. on 31.03.2020.

(*8 marks*)

PART–B

5. (*a*) What do you mean by 'Efficiency Audit' ? State the objective of efficiency audit.

(*b*) What is Inter-Firm Comparison ? Explain the main advantage of Inter-Firm Comparison.

(*c*) What are the points to be considered while carrying out the internal control review of working environment, safety and security ?

(*5 marks each*)

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

6. (*a*) ''An auditor appointed Under Rule 3 of the Companies (Audit and Auditors) Rules, 2014 is required to submit a Certificate and notice to the Registrar of Companies.'' State the matters to be covered in the Certificate and name of the form of the notice required to be submitted.

(*b*) What are the important points to be considered while reviewing the internal control in the area of sales return ?

(*c*) ''Test checking is a system of sampling employed by the auditor for the purpose of reducing the volume of detail checking involved in the audit.''

In view of the above statement explain the precautions should be taken by an auditor while adopting the test checking ?

(*5 marks each*)

OR (Alternate questions to Q. No. 6)

6A. (*i*) What are the Powers or Rights of Auditors prescribed under Section 143(1) of Companies Act 2013 ?

(*ii*) What are the objectives of review of ''Employee Relation'' and draw an internal control questionnaire on it ?

(*iii*) Write briefly about 'communications with those charged with governance'–(SA-260).

(*5 marks each*)

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