325

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) A listed company intends to issue sweat equity shares to its directors and a class of employees. Advise the company about the conditions to be fulfilled for such an issue.

(b) What are the objectives of sound corporate financial reporting ?

(c) Zenith Ltd. has inadequacy or absence of profits in the financial year 2014-15 but it wants to declare dividend. What are the conditions to be fulfilled to declare dividend out of free reserves ?

(d) Fitness Ltd. is planning to raise funds by making rights issue of equity shares to part finance its expansion. The existing equity share capital of the company is ₹40 lakh and the market value is ₹45 per share. The company offered to its shareholders the right to buy 2 shares at ₹12 each for every 5 shares held. You are required to calculate —

(i) Theoretical market price per share after the rights issue;

(ii) The value of rights; and

(iii) Percentage increase in share capital.

(e) A company has its share capital divided into shares of ₹10 each. On 1st April, 2014, it granted 5,000 shares as employees stock options at ₹40 per share, when the market price was ₹130 per share. The options were to be exercised between 16th December, 2014 and 15th March, 2015. The employees exercised their options for 4,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show journal entries in the books of the company.

(5 marks each)

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

2. (a) Base Ltd. is not satisfied with its economic value added and wants to improve it further. What corrective action should it take to improve the same ?

(3 marks)

(b) State three salient features of 'pooling of interest' method of amalgamation.

(3 marks)

(c) When dividend is declared and paid by a subsidiary company out of pre-acquisition and post-acquisition profits, how will the same be dealt with in the books of a holding company ?

(3 marks)

(d) When are diluted earnings per share (EPS) calculated ? From the following information, calculate diluted earnings per share (EPS) of the company :

Net profit for the current year *(after tax)*	₹83,00,000
Number of equity shares outstanding	20,00,000
Number of 10% convertible debentures of ₹100 each *(each debenture is convertible into 10 equity shares)*	1,00,000
Interest expenses for the current year	₹10,00,000
Tax relating to interest expenses	30%

(3 marks)

(e) Explain the method of valuation of equity shares based on price-earnings ratio.

(3 marks)

OR (Alternate question to Q.No. 2)

2A. (i) Explain with examples 'interest accrued and due' and 'interest accrued but not due'. How are these items shown in the balance sheet ?

(5 marks)

(ii) Cheer Ltd. is interested in issuing 10,000, 12% debentures of ₹100 each. You are required to pass necessary journal entries in each of the following situations :

(a) Issued at 10% discount and redeemable at par

(b) Issued at 5% premium and redeemable at par

(c) Issued at par and redeemable at premium of 5%

(d) Issued at discount of 5% and redeemable at premium of 10%

(e) Issued at premium of 10% and redeemable at premium of 20%.

(5 marks)

(iii) Excel Ltd. issued 1,00,000 equity shares and the entire issue was underwritten as follows :

Underwriter - X	—	50%
Underwriter - Y	—	30%
Underwriter - Z	—	20%

Applications were received for 90,000 shares. Out of these, applications for 20,000 shares were marked with X; 10,000 marked with Y and 5,000 marked with Z. The remaining applications for 55,000 shares did not bear any stamp.

Determine the liability of each underwriter in relation to above.

(5 marks)

3. (a) The extracts of balance sheets of H Ltd. and S Ltd. as on 31st March, 2015 are given below :

	H Ltd.	*S Ltd.*
I. EQUITY AND LIABILITIES	*(₹)*	*(₹)*
(1) Shareholders' funds		
(a) Share capital		
Equity shares of ₹10 each	5,00,000	2,00,000
(b) Reserves and surplus		
Securities premium	50,000	10,000
General reserve	1,00,000	50,000
Surplus	75,000	20,000
(2) Current liabilities		
Trade payables	80,000	40,000
TOTAL	8,05,000	3,20,000
II. ASSETS		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	5,10,000	3,20,000
(b) Long-term investment		
(15,000 equity shares in S Ltd. at cost)	2,95,000	—
TOTAL	8,05,000	3,20,000

H Ltd. acquired shares in S Ltd. on 31st March, 2015.

You are required to calculate —

(a) Minority interest; and

(b) Goodwill/capital reserve.

(5 marks)

(b) Nice Ltd. proposed to acquire the business of Kajal & Co. It was agreed to value goodwill at 3 years purchase of the weighted average profits of the past 4 years. Profits and weights are as under :

Year	*Profit (₹)*	*Weight*
2011-12	50,500	1
2012-13	62,000	2
2013-14	50,000	3
2014-15	80,000	4

Following further information is revealed :

(i) In the year 2012-13, closing stock was overvalued by ₹6,000.

(ii) On 1st December, 2013, a major part was added to the plant at the cost of ₹15,000 which was charged to revenue instead of capitalising the same. It was decided to charge depreciation at 10% per annum on reducing balance method.

(iii) Annual charges of ₹12,000 should be made towards management charges.

Calculate the value of goodwill.

(5 marks)

(c) Liquidation of Weak Ltd. commenced on 2nd April, 2015. However, certain creditors failed to receive their dues out of realisation of assets and contribution from 'A' list contributories. Details of transfer of shares between 1st March, 2014 and before commencement of winding-up are given below :

Shareholder	*No. of shares transferred*	*Date of ceasing to be member*	*Creditors unpaid on date of transfer (₹)*
A	4,000	01.03.2014	5,000
B	3,000	01.05.2014	6,600
C	2,000	01.10.2014	8,600
D	1,000	01.11.2014	9,200
E	600	01.02.2015	12,000

Shares were of ₹10 each, ₹8 paid-up. Find out the amount to be realised from various shareholders listed above.

(5 marks)

4. (a) The balance sheet of Magna Ltd. as on 31st March, 2015 is given below :

	₹
I. EQUITY AND LIABILITIES	
(1) Shareholders' funds	
(a) Share capital	
Equity shares of ₹100 each	50,00,000
12% cumulative preference shares of ₹100 each	25,00,000
(b) Reserves and surplus	
Surplus	(2,00,000)
Preliminary expenses	(1,00,000)
(2) Non-current liabilities	
10% debentures of ₹100 each	20,00,000
(3) Current liabilities	
(a) Trade payables	25,00,000
(b) Tax provision	50,000
TOTAL	1,17,50,000
II. ASSETS	
(1) Non-current assets	
(a) Fixed assets	62,50,000
(b) Investments *(market value ₹4,75,000)*	5,00,000
(2) Current assets	50,00,000
TOTAL	1,17,50,000

It was decided to reconstruct with the following scheme :

(i) All the existing equity shares are reduced to ₹40 each and preference shares to ₹60 each.

(ii) The debentureholders surrender their existing debentures and exchange the same with fresh 12% debentures of ₹70 each.

(iii) Creditor Prateek to whom the company owes ₹10,00,000 decided to reduce his claim by 40%. He is allotted 15,000 equity shares of ₹40 each in full satisfaction of the claim.

(iv) Tax liability is settled at ₹75,000.

(v) Fixed assets are written down by 30%.

(vi) Current assets are revalued at ₹22,50,000.

(vii) Investments be brought down to its market value.

(viii) All fictitious assets be written-off.

Pass journal entries in the books of the company and prepare capital reduction account.

(8 marks)

(b) Following is the statement of profit and loss of Target Ltd. for the year ended 31st March, 2015 :

			₹
I.	Revenue from operations		40,25,360
II.	Other income		
	— Subsidy received from government	2,32,560	
	— Interest on investments	15,640	
	— Transfer fees	720	
	— Profit on sale of machinery	25,000	2,73,920
III.	Total Revenue (I+II)		42,99,280
IV.	Expenses		
	— Administrative, selling and distribution expenses	8,22,540	
	— Donation to charitable funds	25,500	
	— Directors' fee	66,760	
	— Interest on debentures	31,240	
	— Compensation for breach of contract	42,530	
	— Managerial remuneration	2,85,350	
	— Depreciation on fixed assets	5,22,540	
	— Provision for taxation	12,42,500	
	— General reserve	4,00,000	
	— Investment revaluation reserve	12,500	34,51,460
V.	Profit for the period (III – IV)		8,47,820
VI.	Profit brought forward from the last year's statement		5,72,360
VII.	Profit carried forward (V + VI)		14,20,180

Additional information :

— Original cost of machinery sold was ₹55,000. The written down value as on the date of sale was ₹30,000.

— Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was ₹4,75,340.

You are required to calculate and comment on managerial remuneration in the following cases in accordance with the provisions of the Companies Act, 2013 if :

(i) there is only one whole-time director;

(ii) there are two whole-time directors; and

(iii) there are two whole-time directors, a part-time director and a manager.

(7 marks)

PART – B

5. (a) What do you mean by 'efficiency audit' ? How does it help the management of an enterprise ?

(b) Distinguish between 'internal control' and 'internal audit'.

(c) 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.

(5 marks each)

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

6. (a) What is the difference between 'inter-firm comparison' and 'intra-firm comparison' ? Explain the usefulness of ratio analysis in inter-firm comparison.

(b) Draft an internal control questionnaire for review of goods receiving procedures and controls.

(c) Audit documentation is pivotal to auditing process. In this context, mention any ten documents and records which should be kept in permanent audit file.

(5 marks each)

OR (Alternate question to Q.No. 6)

6A. (i) Following data is extracted from the books of Right Ltd., an unlisted company for the accounting year 2014-15 :

—	Equity share capital	:	₹40 crore (80% of equity shares are held by the Central Government)
—	Outstanding term loans from various banks on balance sheet date	:	₹85 crore (maximum outstanding balance during preceding accounting year was ₹118 crore)
—	Turnover for the year	:	₹1,750 crore.

Considering the above, answer the following questions with brief reasoning —

(a) Should the company be subject to CAG audit ?

(b) Is the company required to appoint internal auditor ?

(c) Is the company required to appoint secretarial auditor ?

(d) Can the company appoint statutory auditor ?

(e) Is it compulsory for the company to appoint cost auditor ?

(5 marks)

(ii) Distinguish between 'vouching' and 'verification'.

(5 marks)

(iii) In the course of audit of Growth Ltd. you want to review the internal control in the area of sales return. Mention the aspects which are to be specifically looked into to ascertain its soundness.

(5 marks)

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