

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 shall be shown distinctly.

**PART-A**

1. (a) According to section 530 of Companies Act, 2013 which of the creditors are treated as preferential creditors ?  
(5 marks)
- (b) Explain the disclosure requirement as per Schedule III of the Companies Act, 2013 with respect to “Short-term Borrowings”.  
(5 marks)
- (c) Discuss the circumstances under which valuation of shares is necessary.  
(5 marks)
- (d) Following is the Balance Sheet of X Ltd. as at 31st March, 2019 :

PARTICULARS	₹
<b>I. EQUITY AND LIABILITIES</b>	
<b>(1) Shareholders' Funds</b>	
(a) Share Capital (60,000 Equity shares of ₹ 10 each)	6,00,000
(b) Reserves and Surplus :	
(i) Profit and Loss Account	50,000
<b>(2) Current Liabilities</b>	
(a) Short-term Borrowings — Bank Loan	10,000
(b) Trade Payable — Sundry Creditors	60,000
(c) Short-term Provisions :	
(i) Provision for taxation	1,10,000
(ii) Proposed Dividend	60,000
<b>Total</b>	<b>8,90,000</b>

: 2 :

<b>II. ASSETS</b>	
<b>(1) Non-Current Assets</b>	
(a) Fixed Assets — Tangible Assets	3,70,000
<b>(2) Current Assets</b>	
(a) Other Current Assets	5,20,000
<b>Total</b>	<b>8,90,000</b>

The net profit of the company after deducting working expenses but before providing for taxation were as under :

2016-17	₹ 3,18,000
2017-18	₹ 3,40,000
2018-19	₹ 3,12,000

On 31st March, 2019 tangible fixed assets were revalued at ₹ 4,50,000. Sundry Debtors on the same date include ₹ 10,000 which is irrecoverable. Having regard to the type of business a 10% return on average capital employed is considered as reasonable.

Ascertain the value of goodwill on the basis of 3 years purchase of superprofits. Depreciation on tangible fixed assets is charged @ 10% p.a. and the rate of taxation is 30%.

(5 marks)

(e) Prepare a value added statement from the following figures :

	₹
Sales	11,37,000
Income from Investment	10,500
Materials and Services used	6,45,000
Salaries	1,02,000
Other benefits of employees	15,000
Income Tax	1,500
GST	2,71,500
Interest on Borrowings	52,500
Dividend	6,000
Depreciation	49,500
Profit retained	4,500

(5 marks)

: 3 :

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

2. (a) The Balance Sheet of Z Ltd. as at 31-3-2018 supplied the following information :

	₹
13% Debenture Account	14,00,000
13% Debenture Redemption Fund Account	10,00,000
13% Debenture Redemption Fund Investment Account	10,00,000
The annual contribution to Debenture Redemption Fund	1,40,000

The debenture were redeemed on 31-3-2019, when investment were sold for ₹ 14,00,000.

Prepare 13% Debenture Redemption Fund Account and 13% Debenture Fund Investment Account.

(3 marks)

- (b) Explain the order of payment to be followed by the liquidator, out of the amount realised from the sale of assets not specifically pledged and the amount contributed by the contributories ?

(3 marks)

- (c) Dividend is nothing but the distribution of divisible or distributable profits of a company among the holders of its equity shares. What are the main sources of payment of dividend, excluding free reserves, as provided in section 123 of the Companies Act, 2013 ?

(3 marks)

- (d) Hedge accounting changes the timings of recognition of gains and losses. Explain three types of hedge accounting.

(3 marks)

: 4 :

- (e) A firm which was carrying on business from 1st January, 2019 gets itself incorporated as a company on 1st April, 2019. The company decided to close its first books of accounts on 30th September, 2019.

The gross profit for the period is ₹ 56,000. The general expenses are ₹ 14,220; directors fees ₹ 12,000 p.a. and formation expenses is ₹ 1,500. Rent upto 30th June is ₹ 1,200 p.a., after which it increased to ₹ 3,000 p.a. Salary of the manager, who upon incorporation of the company was made a director, is ₹ 6,000 p.a. His remuneration thereafter is included in the above figure of fees to directors.

Prepare Profit & Loss Account showing pre- and post-incorporation profits. The net sales are ₹ 8,20,000, the monthly average of which for the first three months of 2019 is one half of that of the remaining period.

(3 marks)

**OR (Alternative question to Q. No. 2)**

- 2A. (i) Beta Ltd. came up with an issue of 45,00,000 equity shares of ₹ 10 each at par. 30% of the issue was reserved for the promoters and the balance was offered to the general public. The entire amount being asked for with the applications.

R, S and T agreed to underwrite the public issue in the ratio of 3 : 1 : 1 respectively, and also agreed to firm underwriting of 90,000; 60,000 and 30,000 shares respectively.

The underwriting commission was fixed at 2%. The marked application were as follows :

R — 16,50,000 shares; S — 6,00,000 shares; T — 4,50,000 shares.

Unmarked applications excluding for shares underwritten firm totalled were 1,50,000 shares.

You are required to ascertain the liability of each of the underwriters. Also calculate the underwriting commission payable to the different underwriters.

(5 marks)

: 5 :

- (ii) Explain 'Alteration in share capital' as a method of internal reconstruction, provided in section 61 of the Companies Act, 2013.

(5 marks)

- (iii) Calculate the managerial remuneration from the following particulars of Ganga Ltd. due to the managing director of the company at the rate of 5% of the Net Profits. Also determine the excess remuneration paid if any :

	₹
Net Profit	2,10,000
Net Profit is calculated after considering the following :	
(i) Depreciation	40,000
(ii) Preliminary Expenses	10,000
(iii) Tax Provision	3,10,000
(iv) Director's fees	8,000
(v) Bonus	25,000
(vi) Profit on Sale of Fixed Assets (Original Cost ₹ 20,000; Written down value ₹ 11,000)	15,500
(vii) Provision for Doubtful Debts	9,000
(viii) Scientific Research Expenditure (for setting up new Laboratory)	20,000
(ix) Managing Director's Remuneration Paid	30,000

*Additional Information :*

- (a) Depreciation allowable under Schedule II of the Companies Act, 2013 is ₹ 35,000.
- (b) Bonus liability as per Payment of Bonus Act, 1965 is ₹ 18,000.
- (c) Provision for doubtful debts is not required looking to the past records of debtors.

(5 marks)

3. (a) Aaru Ltd. has issued 500 Lakh equity shares of ₹ 10 each to public in the year of 2017-18. The amount were payable as ₹ 2 on application, ₹ 2 on allotment, ₹ 3 on first call and the balance on second and final call. All the due amounts were received except from the following :

- X who is holding 15,000 Shares, on which allotment, first and second calls are in arrear.
- Y who is holding 10,000 shares, on which first and second calls are in arrear.
- Z who is holding 5,000 shares on which second call is in arrear.

On 1st November, 2019, the directors forfeited all the above shares and re-issued them as fully paid to Annu as under :

Forfeited shares of X were re-issued at ₹ 11 per share, those of Y at ₹ 9 per share and those of Z at ₹ 7 per share.

Give the necessary journal entries to record the transactions relating to forfeiture and re-issue of shares.

(5 marks)

- (b) Puva Ltd. has issued 15,000, 10% Debentures of ₹ 100 each on 1st April, 2014. During the year 2018-19 the following transactions were executed in respect of the debentures :

- On 1st July, 2018, 3,500 own debentures were purchased at ₹ 95 (ex-interest) from open market and cancelled them.
- On 31st October, 2018, 2,400 own debentures were purchased at ₹ 97 (cum-interest) from open market. Out of which 1,000 own debentures were sold on 31st December, 2018 at ₹ 104 (cum-interest).
- Interest on debentures was payable half yearly on 30th September and 31st March every year.

You are required to pass the necessary journal entries for the year ended 31st March, 2019. Ignore Tax Deducted at Source (TDS) on interest on debentures.

(5 marks)

: 7 :

- (c) Following are the information of two companies for the year ended 31st March, 2019 :

	<b>Alpha Ltd.</b> (₹)	<b>Beta Ltd.</b> (₹)
Equity shares of ₹ 10 each	4,00,000	5,00,000
10% Preference shares of ₹ 10 each	3,00,000	2,00,000
Profit after tax	1,50,000	1,50,000

Assuming that the market expectations is 18% and 80% of the profits are available for distribution. What is the price per share you would pay for equity shares of each company if you want to acquire 20% shares of these companies on the basis of rate of dividend ?

(5 marks)

4. (a) From the Balance Sheet and additional information given below, prepare consolidated Balance Sheet of H Ltd. (Holding Company) :

**Balance Sheets of H Ltd. and S Ltd.**

**as on 31<sup>st</sup> March, 2019**

<b>Particulars</b>	<b>H Ltd.</b> (₹)	<b>S Ltd.</b> (₹)
<b>I. EQUITY AND LIABILITIES</b>		
<b>(1) Shareholders' Funds</b>		
(a) Share Capital (Equity shares of ₹ 100 each)	5,00,000	2,00,000
(b) Reserves and Surplus :		
• General Reserve	60,000	40,000
• Profit and Loss Account	30,000	10,000

<b>(2) Non-Current Liabilities</b>		
(a) 12% Debentures of ₹ 100 each (secured)	—	1,00,000
<b>(3) Current Liabilities</b>		
(a) Trade Payables :		
• Creditors	40,000	25,000
• Bills Payable	12,000	8,000
(b) Short-term provisions	40,000	20,000
<b>Total</b>	6,82,000	4,03,000
<b>II. ASSETS</b>		
<b>(1) Non-Current Assets</b>		
(a) Fixed Assets — Tangible		
(i) Plant and Machinery	3,50,000	3,20,000
(b) Non-current Investments :		
• Shares in S Ltd. (1,500 shares @ ₹ 120 each)	1,80,000	—
• 12% Debentures (400 debentures in S Ltd. @ ₹ 90 each)	36,000	—
<b>(2) Current Assets</b>		
(a) Inventories — Stock	35,000	15,000
(b) Trade Receivables :		
• Debtors	60,000	30,000
• Bills Receivables	10,000	8,000
(c) Cash and Cash Equivalents		
Cash in hand	11,000	30,000
<b>Total</b>	6,82,000	4,03,000



: 9 :

*Additional Information :*

- (a) When H Ltd. acquired the shares of S Ltd., the General Reserve and Profit & Loss Account of S Ltd. showed a balance of ₹ 30,000 and ₹ 4,000 (Dr.) respectively.
- (b) Creditors of S Ltd. include ₹ 10,000 for goods supplied by H Ltd. at a profit of 20% on sales. Half of the goods were still in stock on 31st March, 2019.
- (c) The Bills accepted by H Ltd. were all in the favour of S Ltd.
- (d) Plant and Machinery were overvalued by ₹ 20,000.

(8 marks)

- (b) The Balance Sheet of Chanda Ltd. as on 31st March, 2019 was as follows :

PARTICULARS	(₹ in Lakh)
<b>I. EQUITY AND LIABILITIES</b>	
<b>(1) Shareholders' Funds</b>	
(a) Share Capital	
• 40,00,000 Equity Shares of ₹ 10 each fully paid	400
• 2,00,000, 7% Cumulative Preference Shares of ₹ 100 each	200
(b) Reserves and Surplus	
• Securities Premium	35
• Surplus (Dr.)	(85)
<b>(2) Current Liabilities :</b>	
Trade Payables	154
<b>Total</b>	<b>704</b>

<b>II. ASSETS</b>	
<b>(1) Non-Current Assets — Fixed Assets</b>	
(a) Tangible Assets :	
• Land and Building	360
• Plant and Machinery	196
(b) Intangible Fixed Assets : Goodwill at cost	50
(c) Other Non-current Assets : Preliminary Expenses	8
<b>(2) Current Assets</b>	
• Inventories	62
• Trade Receivables	28
<b>Total</b>	<b>704</b>

\*\* Dividend on preference shares is in arrear from 1st April, 2016.

The following terms of Capital Reduction Scheme were settled and duly approved on 31st March, 2019 :

- (1) Preference Shares to be reduced to ₹ 80 each fully paid and Equity Shares to ₹ 4 each fully paid.
- (2) One fully paid-up ₹ 4 equity share to be issued for every ₹ 10 of preference share dividend arrears.
- (3) Goodwill, Preliminary expenses and debit balance of Surplus Account to be written off. Securities Premium Account may be utilised to the extent required for this purpose.
- (4) Land & Building and Plant & Machinery were revalued at ₹ 265 Lakh and ₹ 151 Lakh respectively.

Show journal entries reflecting the effect of the above transactions and draw the Balance Sheet after affecting the scheme. Ignore dividend distribution tax.

(7 marks)

**PART-B**

5. (a) Review of sales and distribution function is very important from internal control point of view and it requires a detailed understanding of company business. In view of this statement, enumerate any five objectives of review of sales and distribution policies and programs.
- (b) Working papers are the property of the auditor and the auditor should adopt reasonable procedures for custody and confidentiality of his working papers. Explain the general guidelines that should be considered for preparation of working papers.
- (c) How does the internal audit carry out ? Explain stepwise approach.

(5 marks each)

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

6. (a) Explain the objectives of investigation and also list down the reasons for carrying out investigation where it may be considered necessary.
- (b) Assume that you have been appointed as an auditor of a company covered under the Companies (Auditor's Report) Order, 2015. Briefly discuss the matters, which you should include in auditor's report on account of this company in respect of the following :
- (i) Fixed Assets
- (ii) Internal Control System.
- (c) "Statistical sampling involves the random selection of a number of items for inspection and is endorsed by the accountancy bodies."

In view of the above statement explain the advantages of statistical sampling.

(5 marks each)

***OR (Alternative question to Q. No. 6)***

- 6A.** (i) What are the main objectives of compliance audit ? Also explain benefits of compliance audit.
- (ii) Write a short note on “Committee of Public Undertakings”.
- (iii) State in brief about SA 620 — “using the work of an Auditor’s Expert”.

*(5 marks each)*

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