325

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

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

Total number of questions : 6 ***Total number of printed pages : 10***

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

2. All working notes should be shown distinctly.

PART–A

1. (*a*) Explain the disclosures requirements as per Schedule III of Companies Act, 2013 with regards to "Reserves and Surplus" and "Long-term Borrowings".

(*5 marks*)

(*b*) XYZ Ltd. granted 2,000 options on 1^{st} April, 2015 at ₹ 50 (nominal value ₹ 10 each) when the market price was ₹ 170. The vesting period was two-and-a-half (2½) years. The maximum exercise period was one year. On 1^{st} May, 2017, 500 vested options lapsed and 1,200 options were exercised on 30^{th} June, 2018. Remaining 300 options lapsed at the end of exercise period. Pass necessary journal entries.

(*5 marks*)

(*c*) Discuss Accounting Standard (AS)-18-Related party transactions along with disclosures required to be made by the reporting enterprise.

(*5 marks*)

(*d*) XYZ Ltd. issued 1,50,000 equity shares of ₹ 10 each to public. The issue was underwritten by A, B, C and D as under :

A 30%, B 25%, C 25% and D 20%

The issue was firm-underwritten by the underwriters as under :

A : 6,000 shares, B : 8,000 shares, C : Nil, D : 16,000 shares

Public subscription excluding firm-underwriting but including marked applications were 1,10,000 shares. The marked applications were as under :

A	30,000 shares
B	23,000 shares
C	17,000 shares
D	25,000 shares

Ascertain the liability of each underwriter (No. of shares), assuming firm-underwriting shares be treated as un-marked applications.

(*5 marks*)

(*e*) In April 2019, a company issues 12% ₹ 10,00,000 debentures at ₹ 97 but redeemable at ₹ 104. Redemption will be carried out by annual drawings of ₹ 2,50,000 (face value) commencing at the March 2020. You are required to show :

(*i*) The Journal Entry on issue of debentures; and

(*ii*) The loss on issue of debentures account over the period.

(*5 marks*)

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

2. (*a*) What are the important features of intangible assets ?

(*b*) Explain different kinds of restructuring.

(*c*) Briefly mention the compliance requirement of Accounting Standards.

(*d*) The average net-profit adjusted for valuation of goodwill of the B Ltd. amounted to ₹ 2,26,045. The average profit (before adjustment) was ₹ 2,02,000. 6% represented fair commercial return. The average 'tangible' capital employed was ₹ 13,41,600 but upon valuation it was valued at ₹ 14,40,000. Assuming seven year's purchase of Super profits, find out the value of the Goodwill.

(*e*) X Ltd. was incorporated on 1st July, 2016. Shiva was appointed as managing director on 25th October, 2018. Company suffered a loss of ₹ 3,00,000 in accounting year 2018-19. As per Part-II of Schedule V of the Companies Act, 2013, state that the maximum remuneration for the year 2018-19 to Shiva as managing director by considering the following information of Company's effective capital :

(*i*) On 25th October, 2018 — ₹ 70 crore.

(*ii*) On 31st March, 2019 — ₹ 110 crore.

(*iii*) On 31st March, 2018 — ₹ 90 crore.

(*3 marks each*)

OR (Alternative question to Q. No. 2)

2A. (*i*) The various balances of X Ltd. are as follows as at 31st March, 2019 :

Particulars	₹
4,500, 12% preference shares of ₹ 100 each	4,50,000
6,000 equity shares of ₹ 100 each fully paid	6,00,000
General Reserve	3,00,000
10% Debentures	3,50,000
Current liabilities	5,50,000
	22,50,000
Fixed Assets	13,00,000
Trade Investments	1,00,000
Non-trade Investment	25,000
Current Assets	8,25,000
	22,50,000

Company is earning average profits before tax ₹ 6,50,000. The current tax rate on company's profit is 40%. The rate of dividend on equity shares of the company is maintained at 20% for the last years and is expected to be maintained in future also. The fixed assets may be taken at ₹ 14,00,000. The normal rate of return may be taken at 15%. All investments are earning @ 10% per annum.

Calculate the value of equity shares on :

(1) the basis of Expected rate of return.

(2) the basis of Actual rate of return.

(*5 marks*)

(*ii*) ABC Ltd. Bank has a criterion that it will give loans to companies those have an "Economic Value Added" (EVA) greater than ZERO for the past three years, on an average. The bank is considering lending money to RST Ltd., as small company, that has the economic value characteristics as shown below :

(*i*) Average net profit after tax is ₹ 50 lakh for the last three years.

(*ii*) Average total assets over the last three years is ₹ 150 lakh

(*iii*) Weighted average cost of capital appropriate for the company is 12.5% which is applicable for the three years.

(*iv*) The company's average current liabilities over the last three years is ₹ 30 lakh.

Does the company RST Ltd. meet the Bank's criterion for a positive Economic Value Added (EVA). Justify ?

(*5 marks*)

(*iii*) Ganesh Cotton Mills Ltd. forfeited 1,200 shares of ₹ 10 each (which were issued on 80% Pro-rata basis) for non-payment of allotment money @ ₹ 6 (including premium ₹ 3.50) and first call money @ ₹ 3 per share. Out of 1,200 forfeited shares 1,000 shares were reissued at ₹ 8 per share deeming them as fully paid. Pass Journal entries for :

(*i*) Forfeiture of shares

(*ii*) Reissue of shares

(*iii*) Transfer to capital reserve a/c.

(*5 marks*)

3. (*a*) A Limited Liability Company which has a paid-up share capital of ₹ 5,00,000 and a loss of ₹ 5,57,000 standing in its Balance Sheet went into voluntary liquidation on 31st March, 2019. The following are the particulars of its Assets and Liabilities as on that date :

Machinery, Stock and Debtors (which realised their book value) ₹ 3,95,000; Cash ₹ 5,000; Creditors ₹ 2,00,000; 6% Debentures carrying a floating charge of ₹ 2,50,000 and interest accrued thereon for one year.

The Debentures were paid off with interest upto 31st March, 2019, on which date the final amount was also paid to the creditors. Creditors for ₹ 25,000 were preferential and the rest unsecured. The cost of liquidation amounted to ₹ 2,500. The Liquidator is entitled to 3% on the amount realised including cash and 2% on the amount distributed to the unsecured creditors by way of his own remuneration.

Prepare the Liquidator's Final Statement of Account.

(*b*) Kalyani Ltd. has issued the following securities :

	₹
7% Debentures	4,00,000
10% Preference Shares of ₹ 10 each, fully paid	6,00,000
1,00,000 Equity Shares of ₹ 10 each, fully paid	10,00,000

Average profits of the company before interest and tax are ₹ 7,50,000. The Income tax rate is 30%. If normal rate of return is 8% on preference shares, and 12% on Equity Shares then ascertain the value of Preference and Equity Share.

(*c*) What do you mean by the amalgamation ? What are the different forms of amalgamation ? Give in brief.

(*5 marks each*)

4. (*a*) From the following Balance Sheets of Hani Ltd. and its subsidiary Sani Ltd., drawn up at 31st March, 2019, prepare a Consolidated Balance Sheet as at that date, having regard to the following :

(*i*) General Reserves and Profit (Surplus) of Sani Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively on the date of acquisition and 80% of its shares were held by Hani Ltd. on 1st April, 2018.

(*ii*) Machinery (Book-value ₹ 2,00,000 and furniture (Book value ₹ 40,000) were revalued at ₹ 1,50,000 and ₹ 30,000 respectively as on 1st April, 2018 for the purpose of fixing the price of its shares.

(*iii*) Depreciation is charged @ 10% on machinery and @ 15% on furniture.

Balance Sheets of Hani Ltd. and Sani Ltd.
as on 31st March, 2019

Particulars	**Hani Ltd.** (₹)	**Sani Ltd.** (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(*a*) **Share Capital**		
Equity shares of ₹ 10 each	6,00,000	1,00,000
(*b*) **Reserves and Surplus**		
General Reserve	2,00,000	1,50,000
Statement of Profit & Loss	1,00,000	50,000
(2) Current Liabilities		
Trade payable	1,10,000	57,000
Total	10,10,000	3,57,000
II. ASSETS		
(1) Non-Currents Assets		
(*a*) **Tangible Fixed Assets**		
Machinery	3,00,000	1,80,000
Furniture	1,50,000	34,000
(*b*) **Non-current Investments**		
Investment in Shares of Sani Ltd.	1,20,000	—
(2) Currents Assets	4,40,000	1,43,000
Total	10,10,000	3,57,000

(*8 marks*)

(*b*) The Balance Sheets of A Ltd. and B Ltd. as at 31st March, 2019 are as under :

Balance Sheets as at 31st March, 2019

Particulars	A Ltd. (₹)	B Ltd. (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(*a*) Share Capital		
Authorised :		
Equity shares of ₹ 10 each	6,00,000	4,00,000
Issued and Subscribed :		
Equity shares of ₹ 10 each fully paid-up	6,00,000	4,00,000
(*b*) Reserves and Surplus		
General Reserve	2,80,000	—
Statement of Profit & Loss	1,20,000	2,40,000
(2) Non-Current Liabilities		
10% Debentures	2,00,000	—
12% Debentures	—	4,00,000
(3) Current Liabilities		
Trade payables	4,00,000	1,60,000
Total	16,00,000	12,00,000
II. ASSETS		
(1) Non-Current Assets		
Plant & Machinery	9,20,000	4,40,000
(2) Current Assets		
Stock	3,20,000	3,60,000
Trade Receivables	1,20,000	80,000
Cash at Bank	2,40,000	3,20,000
Total	16,00,000	12,00,000

Contd. ....

The above two companies agree to amalgamate on 31st March, 2019 and for this purpose a new company AB Ltd. incorporate on the following terms :

(*i*) Agreed share exchange ratio is six fully paid-up equity share of ₹ 10 each at par in AB Ltd. for every five equity shares of A Ltd. and three equity shares of B Ltd.

(*ii*) All assets and liabilities are taken over at their book-values.

(*iii*) The debentureholders of two transferor companies will be satisfied by allotment of such amount of 8% Debentures in AB Ltd. as would have the same amount of interest to them as was earned in A Ltd. and B Ltd. respectively.

You are required to show :

(*i*) Calculation of purchase consideration.

(*ii*) Necessary journal entries in the books of AB Ltd.

(*7 marks*)

PART–B

5. (*a*) Write a short note on 'Audit Testing'.

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

(*c*) What is test checking ? What precautions to be taken by auditor while adopting the test checking in auditing ?

(*5 marks each*)

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

6. (*a*) Write a short notes on the following :

(*i*) Professional skepticism

(*ii*) Materiality in Auditing.

(*b*) Explain the different stages of Audit in Depth.

(*c*) What are the objectives of review of Sales and Distribution Policies and Programs of an Organisation ?

(*5 marks each*)

OR (Alternative question to Q. No. 6)

6A. (*i*) H Ltd. intends to strengthen internal control of purchase operations. Draft a questionnaire with regard to segregation of duties related to purchases.

(*ii*) You have been appointed as an auditor of XYZ Ltd. What steps you will follow in verification of Assets ? Explain.

(*iii*) Differentiate between the 'Internal check system' and 'Internal audit'.

(*5 marks each*)

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