GLOBAL CMA

COMPANY ACCOUNTS & AUDIT

Paper-12

Syllabus-2016

Answer of Postal test Paper

Set-1

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Sol. 2 Fill Ups:

i. Statutory
ii. Issued Capital
iii. Subscription
iv. Borrowing
v. Foreign

Sol. 3 True / False

i. False
ii. False
iii. True
iv. False
v. False
vi. False

Sol. 4 Fill Ups:

i. Internal
ii. Expenses
iii. Trading
iv. Management
v. Auditing
vi. Cost Auditor

Sol. 5(a)I

Solution:

	₹
Market value of 5 shares already held by a shareholder @ ₹ 42	210
Add: Price to be paid by him for acquiring 2 more shares @ ₹ 11 per share	22
Total price of 7 shares after rights issue	232

(i) Therefore, theoretical market price of one share, (i.e., 232/7) = 33.14

(ii) Value of Rights = Market Price - Theoretical Market Price= ₹ 42 - ₹ 33.14. = ₹ 8.86

(iii) Percentage Increase in Share Capital

Present Capital	50,00,000
Rights Issue ₹ 50,00,000 × 2/5	20,00,000
% Increase In Share Capital (20,00,000/50,00,000) × 100	40%

Or, $\frac{2}{5} \times 100 = 40\%$

Sol. 5(a)ii

Surrender of Shares

After the allotment of shares, sometimes a shareholder is not able to pay the further calls and returns his shares to the company for cancellation. Such voluntary return of shares to the company by the shareholder himself is called surrender of shares. Surrender of shares has no separate accounting treatment but it will be like that of forfeiture of shares. The same entries (as are passed in case of forfeiture of shares) will be passed in case of surrender of shares.

Sol. 5(C)

Solution:

(a) Calculation of Rebate on Bills Discounted

₹	Due Date	Days after 31 December, 2013	Discount Rate	₹
50,000	18/03/2012	31+ 29 +18 = 78	8%	852.46
30,000	13/03/2012	31+29+13 = 73	7%	418.85
40,000	28/03/2012	31+29+28 = 88	7%	673.22
60,000	23/03/2012	31+29+23 = 83	9%	1,224.59
Total				3,169.12

Dec.31	Particulars	Dr. ₹	Cr. ₹
	Interest and Discount Account Dr. To, Rebate on Bills Discounted. (Being the provision for unexpired discount required at the end of the year)	3,169.12	3,169.12

Sol. 6(a)i

Solution:

Sumangal Ltd
Cash Flow Statement
For the period 1st January 2014 to 31st December 2014

Particulars	₹	₹
1. Cash Flows from Operating Activities:		
Operating profit before dep. and tax	2,50,000	
Adjustment for:		
Increase in creditors	80,000	
Decrease in debtors	15,000	
Increase in stock	(1,10,000)	
Increase in B/R	(7,500)	
Income tax paid	(1,37,500)	
Net Cash from Operating Activities (A)		90,000
2. Cash Flow from Investing Activities:		
Purchase of fixed assets	(3,50,000)	
Net Cash used in Investing Activities(2)		(3,50,000)
3. Cash Flows from Financing Activities:		
Issue of shares at premium	75,000	
Payment of final dividend(2013)	(18,750)	
Payment of interim dividend (2014)	(15,000)	
Net Cash from Financing Activities(3)		41,250
Net increase in Cash and Cash Equivalents		(2,18,750)
Cash and Cash Equivalents at the beginning		1,70,000
Cash and Cash Equivalents at the end		(48,750)

Sol. 6(a)ii

Cash and cash equivalents

- Cash equivalents are held for the purpose of meeting short-term cash commitments.
- For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a short maturity of, say, three months or less from the date of acquisition.
- Equity investments are excluded unless they are, in substance, cash equivalents.
- Bank borrowings are generally considered to be financing activities. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management, bank overdrafts are included as a component of cash and cash equivalents. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.
- Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of an entity rather than part of its operating, investing and financing activities.

Sol. 6(b)i

Solution:

1. COMPUTATION OF DEPRECIATION

Particulars	1st year	2nd year	3rd year	4th year
A. Opening Capital Cost	1,50,000	1,60,000	1,63,000	1,65,000
B. Additional Capital Cost	10,000	3,000	2,000	2,000
C. Closing Capital Cost (A + B)	1,60,000	1,63,000	1,65,000	1,67,000
D. Average Capital Cost [(A + C)/2]	1,55,000	1,61,500	1,64,000	1,66,000
E. Weighted Average Rate of Dep.	3.5%	3.5%	3.5%	3.5%
F. Annualized Depreciation (D × E)	5,425	5,652.50	5,740	5,810
G. Advance Against Depreciation (AAD)	2,575	4,347.50	4,260	5,190
H. Total Depreciation (including AAD) for Tariff (F +G)	8,000	10,000	10,000	11,000

2. COMPUTATION OF ADVANCE AGAINST DEPRECIATION (AAD)

Particulars	1st year	2nd year	3rd year	4th year
A. Repayment of Loan (10% of Loan Amount	8,000	10,000	10,000	11,000
B. Depreciation (Excluding AAD)	5,425	5,652.5	5,740	5,810
C. Difference between A & B (A - B)	2,575	4,347.50	4,260	5,190.50
D. Cumulative Repayment of Loan	8,000	18,000	28,000	39,000
E. Cumulative Depreciation (Excluding AAD) at the beg.	5,425	11,077.5	16,817.50	22,627.5
F. Difference between D & E (D - E)	2,575	6,922.50	11,182.50	16,372.5
G. Advance Against Depreciation (AAD) (Minimum of C & F)	2,575	4,347.50	4,260	5,190

Sol. 7(a)ii

6.2.3 AUDIT WORKING PAPERS

Audit working papers are the record of the planning and execution of the audit engagement. Auditors retain a set of working papers for each audit engagement for each year. The audit working papers for the current year are referred to as the current working papers. Working papers that are relevant to more than one audit engagement are often kept separately in a file referred to as permanent working papers. The audit working papers (current and permanent) for a client audit engagement are sufficiently detailed to enable another appropriately experienced and competent auditor that is not familiar with the client to obtain an overall understanding of the engagement.

SA 230 on 'Documentation' issued by ICAI (CA) deals with the 'working papers'. As per this Standards on Audit, documentation refers to the working papers prepared or obtained and retained by the auditors for his audit work. Working papers (or documentation) serve three purposes

(i) aid in planning and performance of the audit;

(ii) aid in supervision and review of the audit work; and

(iii) these papers serve as an evidence of the audit work performed by the auditor to support his opinion.

Sol. 7(d)i

(b) Disadvantages of Audit Programme

The main disadvantages of an audit programme are enumerated below;

(i) The auditor's task becomes mechanical and the auditors may lose interest and initiative.

(ii) Drawing up of an audit programme may be unnecessary for a small concern.

(iii) Though audit programme helps in fixing responsibilities but inefficient staff may defend themselves by stating that the matter was not contained in the audit programme.

(iv) Rigid programmes cannot be laid down for each type of business.

Though an audit programme may suffer from the above disadvantages but these can be removed by taking some initiatives such as consulting the audit assistants, modifying the programme on the basis of experience gained during audit, etc.