GLOBAL CMA

COMPANY ACCOUNTS & AUDIT

Paper-12

Syllabus-2016

Answer of Postal test Paper

Set-4

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Q. 1

A.

As per this Ind AS 7, cash flows exclude movements between items that constitute cash or cash equivalents as these components are part of cash management of an entity, rather than part of its operating, investing and financing activities. The purchase of short-term bank deposit is therefore not shown in the statement of cash flows.

B.

Re-insurance: Re-insurance means the transfer of a part of risk by the insurer. This is particularly done when the amount of insurance is very high and when it is very difficult to bear the entire risk by a single insurer, a part of the risk is to be insured with some other insurance companies.

Double Insurance: When the same risk and the same subject matter is insured with more than one insurer, i.e., more than one insurance company, the same is called Double Insurance.

Ceding Company: An insurance company that shifts part or all of a risk it has assumed to another insurance company. The Ceding company shares the premium amount it has received to cover the risk, with the second insurance company called the Reinsurer. In return the Reinsurer company pays commission to the Ceding company for getting the business.

C.

D.

Journal

Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
Entry in all cases			
Sundry Assets A/c Dr.		10,80,000	
To C Ltd.			10,80,000
[Being the purchase of assets from Y Ltd. as per agreement dated...]			
Case (a) When Shares are issued at par			
C Ltd. Dr.		10.80.000	
To Equity Share Capital A/c			10,80,000
(Being the issue of 10,800 shares at par to C Ltd. as per agreement dated...)			
Case (b) When Shares are issued at a premium of 20%			
C Ltd. Dr.		10,80,000	
To Equity Share Capital A/c			9,00,000
To Securities Premium A/c			1,80,000
(Being the issue of 9,000 shares at 20% premium to C Ltd. as per Board's Resolution no.......... dated..........)			

Working Note: Calculation of No. of Shares to be issued in different cases

	At Par	At a Premium
A. Amount to be paid (₹)	10,80,000	10,80,000
B. Issue Price Per Share (₹)	100	120
C. No. of Shares to be issued (A/B)	10,800	9,000

II.

a) Reserve and Surplus
b) Buy-back
c) Own Debentures
d) Two
e) Independent

III. **True or false (any five)**

a. False
b. True
c. True
d. False
e. False
f. False

IV. Fill in the Blanks (any five)

a) DRR
b) AOA
c) Shares
d) General
e) General Meeting
f) Debenture Trustee

V.

B.

(₹ in lacs)

	(₹)	(₹)
Amount outstanding (packing credit)	90.00	
Less : Realisable value of securities	22.50	
	67.50	
Less : ECGC cover (50%)	33.75	
Net Unsecured Balance	33.75	
Required provision :		
Provision for unsecured portion (100%)		33.75
Provision for secured portion (100%)*		22.50
		56.25

Other advances:

(₹ in lacs)

Assets	Amount	% of	Provision
	₹	provision	₹
Standard	4500	0.40*	18
Sub-standard	3300	15	495
Doubtful :			
For one year	1350	25	337.5
For two years	900	40	360
For three years	600	40	240
For more than three years	450	100*	450
Loss	900	100	900
Required provision	12,000		2800.5

Note : Doubtful advances have been taken as fully secured. However, in case, the students assume that no security cover is available for these advances, provision will be made for 100%.

* As per the Master Circular issued by RBI.

C.

MM Electric Supply Ltd.
Balance Sheet as at 31st March, 2013

Particulars	Note No.	(₹ in '000)
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital	1	65,000
(b) Reserves and Surplus	2	21,376
(2) Non-Current Liabilities		
(a) Long-term Borrowings	3	40,000
(3) Current Liabilities		
(a) Trade Payables		6,524
(b) Short-Term Provisions	4	12,100
Total		1,45,000
II. ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets	5	
(i) Tangible Assets		1,09,960
(ii) Intangible Assets		2,504
(b) Non-Current Investments	6	12,000
(2) Current Assets		
(a) Inventories		12,050
(b) Trade Receivables	7	5,232
(c) Cash and Cash Equivalents		3,254
Total		1,45,000

Notes to Accounts:

1. Share Capital

Authorised Capital	
50,00,000 shares of 10 each 2,50,000 14% Pref. Shares of 100 each	50,000 25,000
	75,000

Issued & Subscribed Capital	
50,00,000 shares of 10 each 2,50,000 14% Pref. Shares of 100 each	50,000 25,000
Less: 1,00,000 14% Pref. Shares of 100 each	(10,000)
	65,000

2. Reserves and Surplus

Capital Reserve		4,020
Contingency Reserve (12,030 + 170 – 10		12,190
General Reserve (1,000 + 200)		1,200
Profit & Loss Account		
Opening Balance	350	
Add: Profit for the period	5,000	
Less: Transfer to General Reserve	(200)	
Less: Transfer to Contingency Reserve	(170)	
Less: Provision for Doubtful Debts	(1,014)	3,966
Total		21,376

3. Long-term Borrowings

15% Debentures	24,700
16% Term Loan	15,300
	40,000

4. Short-term Provisions

Proposed Dividend	12,100
	12,100

5. Tangible Assets

Land (10,400 + 20,50)	12,450
Building (30,054 + 50,80)	35,134
Plant & Machinery	57,058
Mains	4,524
Meters	3,150
Electrical Instruments	1,530
Office Rumiture	2 450
Transformers	16 440
Public lamps	3 040
Less: Depreciation Fund	(25 816)
Total	**1,09,960**

VI.

Statement of Underwriters Liability (Figures in No. of shares)

Particulars	S	P	G	M	N	SA	Total
Ratio of Gross Liability	30%	35%	10%	15%	2%	8%	100%
Gross Liability (given)	30,000	35,000	10,000	15,000	2,000	8,000	1,00,000
Less: Unmarked Applications In the ratio of Gross Liability	6,000	7,000	2,000	3,000	400	1,600	20,000
	24,000	28,000	8,000	12,000	1,600	6,400	80,000
Less: Marked Applications	(25,000)	(23,500)	(5,500)	(1,000)	(1,000)	(2,000)	(58,000)
	(1,000)	4,500	2,500	11,000	600	4,400	22,000
Less: Firm underwriting	(500)	(1,500)	(7,000)	(3,000)	(1,000)	(4,000)	(17,000)
	(1,500)	3,000	(4,500)	8,000	(400)	400	5,000
Adjustment: Surplus of S , G , and N to P, M and SA transferred to P,M and SA in Gross Liability Ratio at 35:15:8	1500	(3862)	4,500	(1,655)	400	(833)	-
	-	(862)	-	6,345	-	(483)	5,000
Adjust: Transfer of surplus of P and	-	862	-	(1,345)	-	483	-
Net Liability	-	-	-	5,000	-	-	5,000
Add: Firm Underwriting	500	1,500	7,000	3,000	1,000	4,000	17,000
Total Liability	500	1,500	7,000	8,000	1,000	4,000	22,000

VII.

A.

"Branch office", in relation to a company, means any establishment described as such by the company - section 2(14) of the 2013 Act.

Audit of Branch Office by company's auditor or branch auditor - Where a company has a branch office, the accounts of that office shall be audited either by the company's auditor (i.e. auditor appointed for the company in AGM) or by any other person qualified for appointment as an auditor of the company under the 2013 Act. Such 'branch auditor' shall be appointed as such under section 139 of the 2013 Act - first part of section 143(8) of the 2013 Act.

Audit of branch offices outside India - Where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country. The duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be as may be prescribed - second part of section 143(8) of the 2013 Act.

Report by Branch Auditor to company's auditor - The branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the company's auditor. The company's auditor shall deal with the report of branch auditor in his report in such manner as he considers necessary - proviso to section 143(8) of the 2013 Act.

Joint Audit

In big corporate more than one persons or firm of Chartered Accountants are appointed as a Joint Auditor for conducting the audit of the company. This practice of appointing joint auditor accrues great advantages to the company. In a big organisation the task of carrying audit cannot be accomplished with single individual so for overcoming such situation joint auditor wheres appointed.

B.

(a) Procedure

The cost auditor is to be appointed by the Board of Directors (BOD) on the recommendation of the Audit Committee, where the company is required to have an Audit Committee. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors. The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2 along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors (BOD) within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

(b) Who can be appointed cost auditor?

Only a Cost Accountant, as defined under section 2(28) of the Companies Act, 2013, can be appointed as a cost auditor.
Clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 defines "Cost Accountant". It means a Cost Accountant who holds a valid certificate of practice under sub-section (1) of section 6 of the Cost and Works Accountants Act, 1959 and is in whole-time practice. Cost Accountant includes a Firm of Cost Accountants and a LLP of cost accountants.

(c) Eligibility criteria for appointment as a cost auditor

Eligibility Criteria under Section 141 of the Companies Act, 2013 read with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 and Section 148 of the Companies Act, 2013. The following persons are not eligible for appointment as a cost auditor:

a) A body corporate. However, a Limited Liability partnership registered under the Limited Liability Partnership Act, 2008 can be appointed. [Section 141(3)(a)].
b) An officer or employee of the company. [Section 141(3)(b)].
c) A person who is a partner, or who is in the employment, of an officer or employee of the company. [Section 141(3)(c)].
d) A person who, or his relative or partner is holding any security of or interest in the company or any of its subsidiary or of its holding or associate company or a subsidiary of such holding company. [Section 141(3)(d)(i)].
e) Relatives of any partner of the firm holding any security of or interest in the company of face value exceeding ₹ 1 lakh. [Section 141(3)(d)(i) and Rule 10(1) of Companies (Audit and Auditors) Rules, 2014].
f) A person who is indebted to the company or its subsidiary, or its holding or associate company or a subsidiary or such holding company, for an amount exceeding ₹ 5 lakhs. [Section 141(3)(d)(ii) and Rule 10(2) of Companies (Audit and Auditors) Rules, 2014].
g) A person who has given any guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or its holding or associate

ii.

AUDIT OF MUNICIPALITIES AND PANCHAYATS (LOCAL BODIES)

The major objective of audit of Municipalities and Panchayats are enumerated below;

(i) To ensure on the fairness and correctness of contents in the Financial Statement
(ii) To report on adequacy of Internal control
(iii) To ensure value of money is fully received on amount spent.
(iv) To detect the frauds and errors.

The following points are to be considered necessary for carrying on audit of Municipalities and panchayats (Local Bodies);

(i) To ensure that the expediters incurred conform to the relevant provision of the law and is in accordance with the financial Rules and regulation formed by the compliant authority.
(ii) To encase that sanction is accorded by the competent authority either special or general.
(iii) To encase that there is provision of funds for expenditure and is authorized by competent Authority.
(iv) To ensure that where huge financial expenditure is made is run economically and is expected to contribute growth.