

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

Course: Advanced Accounting and Auditing  
Semester-III (Batch: 2018-23)

End Semester Examination: October-2019

Date: 22<sup>nd</sup> October, 2019

Duration: 3 hours

Max. Marks: 50

**Instructions:**

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write anything on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.

**Part-A**

**Marks**

Answer all the questions

- Q.1 (a) A Charitable Trust receives donation of Rs. 5,00,000 for the construction of building. The management invested Rs. 2,00,000 out of it in Government Bonds and spent Rs. 2,75,000 for the construction of building, which is in progress. Interest on investment received Rs. 2000. (4+6=10)
- You are required to show the effect of the treatment in the balance sheet.
- (b) Mr. Sam and Mr. Cam are practicing lawyers under the name of the firm Samcam & Co., they close their accounts on 31<sup>st</sup> March every year. The following is the extract from the balance sheet as at 31<sup>st</sup> March, 2015 :

<i>Liabilities</i>	<i>Amt. Rs.</i>	<i>Assets</i>	<i>Amt. Rs.</i>
Audit Fees collected in advance (Mr. Sam's client)	1,00,000	Outstanding audit fees Mr. Sam's clients 3,00,000 Mr. Cam's clients 2,00,000	5,00,000
Provision for outstanding fees	5,00,000		

The following is the extract from their cash/bank transactions for the year ended 31<sup>st</sup> March, 2016:

<i>Receipts</i>	<i>Amt. Rs.</i>	<i>Payments</i>	<i>Amt. Rs.</i>
Audit fees Mr. Sam's clients 28,00,000 Mr. Cam's clients 18,00,000	46,00,000		

The following further information is available for the year ending 31<sup>st</sup> March, 2016:

Audit Fees Receivable:

Mr. Sam's Clients	Rs. 3,00,000
Mr. Cam's Clients	Rs. 5,00,000

Audit fees received in advance:

Mr. Cam's clients	Rs. 2,00,000
-------------------	--------------

You are required to ascertain the amount pertaining to the audit fees income to be credited to I & E receipt as on 31<sup>st</sup> March, 2016.

**Part-B**  
**Answer all the questions**

- Q.2 (a) Define 'statutory audit'. Discuss the procedure of selection and appointment of auditors. (5+5=10)
- (b) The audit done by C&AG is broadly classified into 'regularity audit' and 'performance audit'. Elaborate the terms to explain the role of C&AG and its jurisdiction.
- Q.3 GPCL Co. Ltd. sell its business to Aramco Ltd. as on December 31, 2018. Following is the balance sheet as on the date: (10)

<i>Liabilities</i>	<i>Amt. Rs.</i>	<i>Assets</i>	<i>Amt. Rs.</i>
Equity share capital of Rs. 100 each	2,00,000	Freehold property	1,50,000
9% debentures	1,00,000	Goodwill	50,000
Trade creditors	30,000	Plant & tools	83,000
Reserve funds	50,000	Stock	35,000
Profit & loss account	20,000	Bills receivable	4,500
		Sundry debtors	27,500
		Cash & bank	50,000
	<b>4,00,000</b>		<b>4,00,000</b>

The Aramco Ltd. agreed to take over the assets (exclusive of cash & bank and goodwill) at 10 % less than the book value, to pay Rs. 75,000 for goodwill, and to take over the debentures.

The purchase consideration was to be discharged by the allotment of 1,500 shares of Rs. 100 each at premium of Rs. 10 per share and the balance in cash.

The cost of liquidation amounted to Rs. 3,000 which was borne by the acquirer.

Show the necessary journal entries in the books of accounts of the Aramco Ltd. and prepare the balance sheet.

- Q.4 LI&FS Ltd. is running with losses for the past few years to the extent that the company is not able to pay preference dividend for the last three years and therefore is facing the threat of liquidation. In order to avoid the same, as a part of internal reconstruction, the board approved the following scheme of capital reduction, which is duly approved by the authority. (10)
- (i) The equity shareholders have agreed that their shares be reduced to a fully paid value of Rs. 5 each. The necessary change in the denomination have been effected to facilitate the same.
  - (ii) The preference shareholders agreed that their shares be reduced to fully paid shares of Rs. 50 each and to accept equity shares of Rs. 5 each fully paid in lieu of the dividend arrears.
  - (iii) The authorised capital of the company is to remain at Rs. 15,00,000 divided into 2,00,000 equity shares of Rs. 5 each and 10,000; 6% non-cumulative preference shares of Rs. 50 each.
  - (iv) All the fictitious and intangible assets are to be wiped off from the balance sheet and value of the stock to be reduced to the market value.
  - (v) Rs. 25,000 to be provided for the doubtful debts.

Prior to the implementation of the scheme, following was the position of the company:

**Balance sheet of LI&FS Ltd. as at 31.03.2019**

<i>Liabilities</i>	<i>Amt. Rs.</i>	<i>Assets</i>	<i>Amt. Rs.</i>
1,00,000 equity shares of Rs. 10 each fully paid up	10,00,000	Land & buildings	7,50,000
5,000; 6% non-cumulative preference shares of Rs. 100 each fully paid up	5,00,000	Plant & machinery	5,00,000
Bank overdraft	3,50,000	Goodwill	1,00,000
Sundry creditors	2,50,000	Intellectual Property (IPR)	50,000
		Stock	2,00,000
		Sundry debtors	1,50,000
		Preliminary expenses	50,000
		Profit & loss account	3,00,000
	<b>21,00,000</b>		<b>21,00,000</b>

Note: Preference dividend are in arrears for the past three years.

Pass necessary entries to give effect to the capital reduction and prepare the balance sheet post reduction of capital.

Q.5 Shiva Ltd. was incorporated on 31<sup>st</sup> July, 2018 to acquire the business of Parvati enterprises as on 1<sup>st</sup> April, 2018. The books of accounts disclosed the following on 31<sup>st</sup> March, 2019. (10)

- i. Sales for the year were Rs. 24,20,000 (From 1<sup>st</sup> April 2018 to July 31, 2018 Rs. 6,05,000; From 1<sup>st</sup> August, 2018 to 31<sup>st</sup> March, 2019 Rs. 18,15,000)
- ii. Gross profit for the year 2018-19 amounted to Rs. 4,00,000)
- iii. Preliminary expenses written off: Rs. 12,000; managing director's salary Rs. 20,000; company secretary's salary Rs. 60,000
- iv. Bad debts written off Rs. 12,520 (prior to 31<sup>st</sup> July Rs. 3,020; after 31<sup>st</sup> July Rs. 9,500)
- v. Depreciation Rs. 18,000; general expenses Rs. 42,000; advertising Rs. 6,000; interest on fixed deposits paid Rs. 20,000

You are required to prepare a statement showing profit/loss transferred to appropriate account for the respective period.

\*\*\*\*