

1

QP 00053331

S.Y.BCOM (ACCOUNTING AND FINANCE) SEMESTER - III
AUDITING -II (Techniques of auditing and audit procedure)

DATE :

Question Paper code : 00053331

MARKS : 75

SUGGESTED MODEL ANSWER
Note : Examiner should note that only some points are given in the model answers. They must refer text book of the subject.

Q1.(A) State whether following statement are 'True' or 'False' (Any 8) (8 marks)
(Each correct answer carries 1 marks)

1. True
2. False
3. False
4. False
5. True
6. False
7. False
8. True
9. True
10. False

Q1.(B) Match the following (Any 7)
Group 'A'

- | | Answer | (7marks) |
|------------------------------|---|----------|
| 1) Receipt from Debtors | a) Receipt issued | |
| 2) Re-appointment of auditor | b) Shareholders at annual general meeting | |
| 3) GRN | c) Goods Received Notes | |
| 4) Investment | d) Brokers sold note | |
| 5) Remuneration | e) Fixed by the Shareholders | |
| 6) Travelling expenses | f) Tickets | |
| 7) Goods dispatched | g) Delivery Challan | |
| 8) Salary | h) Payrolls | |
| 9) Inventory consists of | i) Tangible Items | |
| 10) Custom duties | j) Bill of Entry | |

Q2. (a) How will an auditor vouch the following receipts (Any Two) (15 marks)

i) The auditor should take the following steps for Receipt of interest on fixed deposit with bank

1. Fixed deposit register
2. Fixed deposit certificate
3. Terms of receipt of interest
4. proper accounting
5. TDS certificate
6. Loan against security of fixed deposit
7. Review bank reconciliation

ii) The auditor should take the following steps for Rental Receipt :

1. Tenancy agreement
2. Copies of bills issued to tenant
3. Schedule of properties held and let out by the client
4. Reasons for rent not received for any let out properly
5. Counter foils of rent receipts
6. Rent register
7. Proper authorization
8. Proper accounting outstanding and rent received in advance
9. Provision for irrecoverable rent
10. Certificate from management for vacant properties.

iii) The auditor should take the following steps for Bad debts recovered :

1. Notification from court or from bankruptcy trustee
2. Letters from collecting agencies / debtors
3. Prompt deposit of cash in bank account
4. Acknowledgement receipts issued to debtors
5. Properly recorded in the books
6. Disclosed as per the requirement of schedule VI

OR

Q2(b) How will an auditor vouch the following payments (Any Two) (15 marks)

i) Purchase Return

1. Supporting document
2. Name of the client
3. Date
4. Serial Number
5. Amount
6. Amount
7. Quantity
8. Signature on voucher
9. Signature and stamp of the client
10. Distinguish between purchase return and sales
11. Errors and fraud
12. Reconciliation

ii) Preliminary expenses

1. Supporting document
2. Resolution of Board of Directors
3. Amount
4. Disclosure
5. Underwriting commission

iii) Audit of advertisement expenses should be done in the following manner:

1. Supporting documents
 - i) Bills from the advertising agency
 - ii) Proof of appearance of advertisement from the concerned medium
 - iii) Contract with the advertising agency about the terms and conditions.
2. Relate to client's business only
3. Date of advertisement
4. Amount
5. Details about appearance of advertisement
6. Regular contracts
7. Accounting Principles and Practice
8. Disclosure

Q3. (a) How will An Auditor verify the following Assets (Any Two) (15 marks)

i) Cash at bank

1. Checking of bank reconciliation statement 2. Subsequent adjustment of unclear items on balance sheet date in BRS. 3. Reversal of cheques that have become stale in BRS
4. Confirmation certificate from bank 5. Clarification from bank for different deposit like fixed deposit ,saving account , current account 6. Disclosure of deposit in foreign bank 7. Disclosure as per schedule VI

ii) Debtors

1. Internal control 2. Scrutiny of debtors ledger to identify 3. Authorization to write off any balance of debtors as irrecoverable 4. Adequate provision for doubtful debt 5. Confirmation from customers 6. Comparison and analysis of significant ratios 7. Requirements of Schedule VI

iii) Patents

1. Company should be registered owner 2. Patent register 3. Purchase agreement 4. Documentary evidence in case of litigation about its title 5. Ensure that its it is free from any encumbrances 6. Properly written off to profit and loss account 7. Provision of income Tax
OR

Q3.(b)) How will An Auditor verify the following Liabilities (Any Two) (15 marks)

i) Capital Reserve:

1. Sale of fixed assets 2. Realisation of profit on Forfeiture of shares 3. Profit prior to incorporation 4. Premium on issue of shares and debenture 5. Writing of fictitious assets 6. Issuing shares 7. Disclosure as per schedule VI

ii) Outstanding Expenses

1. List of

outstanding Expenses
2. Supporting Documents
3. Subsequent payment of outstanding expenses
4. Comparison with previous year and investigation in case of major deviations
5. Disclosure (to be shown as current liability)

iii) Creditors

1. Internal Control 2. Comparison of schedule of creditors with control account 3. Correspondence and ledger scrutiny 4. Cut off procedure 5. Analytical review procedure

Q4. SA230- Audit Documentation :

(15marks)

1. Meaning – Auditors responsibility to prepare audit documentations.
2. Documentation refers to working papers
3. Form and content of working papers
4. Permanent Audit files & its contents
5. Current Audit files & its contents

9)

6. Ownership & custody of working papers

OR

Q4. (b) Explain the following (Any Two)

(15marks)

i)) SA 320 –Audit Materiality

- 1. Materiality : Information whose misstatement can influence the economic decisions of users relating to financial information**
- 2. Professional judgment of auditor**
- 3. Audit risk**
- 4. Relationship between materiality and audit risk**
- 5. Communication of errors / misstatement to the management**

ii) SA 300 – Planning an audit and Financial Statements

- 1. Auditor should plan the audit so that it can be performed effectively**
- 2. Auditor should verify adequacy of internal controls and should also evaluate compliance with ethical requirements**
- 3. Auditor should establish overall audit strategy and audit plan and determining timing , nature and extent of audit procedure required**
- 4. Auditor should change the overall audit strategy and audit plan as and when required during the course of audit**
- 5. Auditor should document overall audit strategy , audit plan and significant changes made during audit engagement**

iii) SA 250 – Consideration of Law and regulations in audit of financial statements

- 1. Auditor Should consider relevant laws and regulations applicable in conduct of audit**
- 2. Primary responsibility to observe all applicable laws and regulations is on the management of the entity**
- 3) This procedure can help auditor to evaluate the possibilities of non compliance**
- 4) In case of any non compliance auditor should bring it to the notice of management and should evaluate its impact on financial statement**
- 5) In appropriate cases auditor should consider qualifying his audit report**

(23)

Q5.(a) Duties of an Auditor:

(8marks)

1.duty to report on accounts

2. duty to make enquiries on 6 matters – loans & adv , transaction by book entries , sale of investments , Loans & adv. As deposits , personal exp , allot. Of shares for Cash

3. Duty to Certify prospectus 4. Duty to certify statutory report

5.Duty to certify Solvency Report 6. Duty regarding Public deposits

7. Duty to assist investigators 8. Duty to sign Audit Report

9.Duty to submit CARO report .

Q5(b) The procedure Removal of company auditor (section 140)

(7 marks)

(1) First Auditors :

- i) Can be removed by shareholders at AGM before expiry of his term
- ii) No previous approval of Central Government required
- iii) Already 14 days special notice required

(2) Other Auditors

- i) Can be removed at general meeting after approval from Central Government
- ii) Due notice to be given to retiring auditor
- iii) Retiring auditor can make representation etc.

OR

Q5. Write short note on (Any Three)

(15 marks)

(1) Special Audit

(a) Section 147 : Central Government may order:

(b) Scope wider than annual audit

(c) The main object : Sound business principles and prudent practices

(d) Special Auditor : company's own auditor or any other Chartered Accountant

(e) Auditor's Report : Central Government

(2) Audit of Trade Marks

1. Internal cont
2. Stores ledger
3. Documentary evidence for receipt
4. Attending physical stock verification
5. Cut off Procedures
6. Accounting of discrepancies during physical verification
7. Identification of slow moving , defective and obsolete item
8. Confirmation from third parties
9. Comparison with previous year and ratio analysis

10. Ensuring proper valuation (AS-2)

11. Disclosure and reporting requirement as per CARO, 2003

(3) Verification of Assets

Verification means proving the truth or confirmation of assets and liabilities appearing in the balance sheet. Verification includes verifying a) the existence of the assets b) legal ownership 3) ascertaining that the assets is free from any charge and 4) correct valuation .

4) Objectives of vouching of receipts :

1. Proper recording
2. Proper Deposit
3. No possibility of any transaction not being recorded
4. No teeming and lading
5. Requirements of schedule VI

5. Bank Reconciliation Statement (BRS)

Bank Reconciliation Statement is prepared to reconcile the difference in the balance between Cash book and Pass book. It is prepared by the accountant of the client. Generally ,auditor should check the position of all amount deposited in the bank, which were outstanding for realization at the close of the year.
