

MODEL ANSWER

Class : F. Y. BCOM (Accounting and Finance)

SEMESTER : II

Subject: AUDITING – I (INTRODUCTION AND PLANNING OF AUDITING)

Date Of Exam :

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Q1.(A) Select the appropriate option and rewrite the sentences(Any 8) (8 Marks)

- | | | |
|---------------|-----------------------|-------------------|
| 1. Memorandum | 2. Error | 3. Nominal |
| 4. Programme | 5. Management | 6. Statutory |
| 7. Check | 8. Central Government | 9. Secret Reserve |
| 10. Technique | | |

Q1.B) State the whether following statements are True or False (Any 7) (7 Marks)

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

Q2 A) Advantages of auditing (8 Marks)

1. True and fair view of balance sheet
2. True and fair view of profit and loss account
3. Compliance with law
4. As per Standard accounting and Auditing practice
5. Tally with books of accounts
6. Disclose all material facts
7. Detection of errors and frauds
8. Moral check on employees
9. Loan from banks
10. Valuation of purchase consideration
11. Calculation of Purchase consideration
12. Facilities taxation
13. Evidence in court
14. Listing shares

Q2.B) When books of accounts are made in a such a way to show much better condition than the actual condition it is called as window dressing.

Auditor's duty in respect of window dressing (7 Marks)

1. Auditor's report
2. Verification of Income
3. Verification of Assets & Liabilities
4. Verification of Provisions
5. Valuation of Closing Stock
6. Change in the method of accounting
7. Omission of Liabilities

OR

Q2.C) Final audit advantages (8 Marks)

1. Inexpensive
2. Audit at a stretch.
3. Does not disturb the routine accounting work
4. No alteration of figures

Final audit disadvantages

1. Delay in final accounts
2. Late dividends to the shareholders.
3. No moral check on employee
4. Sample check of the transaction
5. No familiarity with the client's business
6. Uneven work for the audit staff

Q2.D) Manipulation of Records**(7 Marks)**

1. Not recording the transactions
2. Recording dummy transactions
3. Window dressing
4. Misapplication of accounting policies
5. Secret Reserves

Q3.A) Audit notebook and contents of audit note book**(8 Marks)**

1. List of books of accounts maintain by the clients
2. The name of the principals officers their powers duties and responsibilities
3. The technical term used in the business.
4. The points, which require further explanations and clarifications
5. The particulars of missing vouchers the duplication of which have to be obtain
6. The mistakes and errors discovered.
7. Totals of balance of certain books of accounts banks reconciliation statements
8. Notes and queries, which might be required at a subsequent audit
9. The points, which have to incorporate in the audit reports.
10. Any matter, which requires discussion with the senior or with the auditor.
11. Accounting method followed in the business
12. Dates of commencement and completion of the audit

Q3B) Audit Working paper.**(7 Marks)**

1. It is a record of significant observations and conclusions of the auditor in course of audit.
2. Record of audit queries, information provided by the clients, audit remark, deficiencies observed in internal control
3. Audit working papers are property of auditors and should kept in safe custody

Contents of current files

1. audit plan
2. Adjusting journal entries
3. Observations on vouching and verification
4. Technique of stock valuation
5. Bank Reconciliation statement and certificate from bankers about balances
6. extracts from minutes books
7. Trial balance
8. Details of contingent liabilities
8. Details of correspondence and balance confirmations obtained from third parties

OR

Q3.C) Steps to be taken by auditor's before commencement of an audit**(8 Marks)**

1. Appointment as per the provisions of relevant statute.
2. Engagement letter acknowledged by client
3. Examination of basic documents Memorandum of Association, Articles of Associations, prospectus
4. List of books of accounts maintained by the company
5. List of officers of the company
6. Trial balance and draft final accounts of current year.
7. Financial statements and audit reports of previous year
8. Internal controls and their reliability
9. Minutes books
10. Certificate of incorporation
11. Copy of Relevant Contracts

Q3.D) Advantages of Audit Programme**(7 Marks)**

1. Provides guidance to assistance regarding, i. What audit work done by whom, ii. Procedure to be adopted iii. Time Frame iv. Type of transactions t be specifically covered

Q4.A) Evaluate internal control for sales**(8 Marks)**

1. Division of work
2. Procedures
3. Cross-checking
4. Changes in duties
5. Annual leave
6. No access to books of accounts
- 7 Proper recording
8. Prompt recording
9. Safeguarding
10. Accounting policies
11. Errors & Frauds.

Q4.B) Auditor's duties regarding internal check**(7 Marks)**

1. Division of work
2. Automatic control
3. No access to books of accounts
4. Change in duties
5. mandatory leaves
6. Proper records keeping
7. Prompt recording
8. Proper record keeping

9. Physical stock taking 10. Review of accounting policies & Procedure 11. Mechanical devices
12. Clear definitions of duties 13. Authority levels

OR

Q4.C) Evaluate internal control for creditors.

1. Prompt recording 2. Prompt Adjustments 3. Division in age-wise creditors 4. Reconciliation
5. Statements of accounts 6. Discounts and rebates

(8 Marks)

Q4 D) Distinguish between Internal Audit and Statutory audit.

1. Appointment 2. Qualification 3. Compulsion 4. Status 5. Objectives 6. Period
7. Responsibility 8. Report 9. remuneration

(7 Marks)

Q5.A) Features of statutory Audit.

1. Compulsion 2. Appointment 3. Remuneration 4. Qualification 5. Status 6. Responsibility
7. Report 8. Attendance at Meeting

(8 Marks)

Q5B) Distinguish between Internal Check & Internal Control

1. Meaning 2. Object 3. Implementation 4. Relation 5. Time 6. Errors & Fraud

(7 Marks)

OR

Q5. Write short note on (Any 3):

- 1) Special Audit
a) Section 147: Central Government may order:
i) Affairs not as per the sound business principles.
ii) Serious injury or damage to the interest of the trade of industry.
iii) insolvency
b) Scope wider than annual audit
c) The main object is sound business principles and prudent practices.
d) Special auditor: Company's own auditor or any other Chartered Accountant.
e) Auditor's report : Central Government

15 Marks

2) Audit Sampling

According to SA530 " Audit sampling " Means the application of audit procedure to less than 100% of the items within an account balance or class of transaction.

Designing audit Sample :

1. Audit objectives.
2. The Population.
3. The Sample Size
i) Sampling risk
ii) Tolerable Error
iii) Expected error

3) Audit Engagement Letter

Audit Engagement Letter provides following benefits

- 1) Scope of audit
2) Basis of charging audit fees
3) Details of over value added services to be provided.
4) Emphasizing the duty of management in maintaining true and fair accounts
5) Audit techniques to be adopted
6) Emphasizing that audit is not necessarily a safeguard against all errors and frauds although the possibility of error or fraud is greatly minimized after audit.

4) Audit liability

4

Test checking can reduce work load of the auditor but it does not reduce his liability. If subsequently frauds are noticed in the transactions which are not checked by the due to test checking, he only will be held responsible for it. Therefore before adopting test checking auditor should be convinced about the reality and effectiveness of internal control system. During test check if he comes across any slightest irregularity he should not neglect it. He must thoroughly verify all the transactions and get himself fully convinced about the correctness of the accounts.

5) Errors of commission :

Errors errors of commission: when and the transactions has been entered in in the books but wrongly it is called as a error of commission. such errors can further classified into:

- a. Mathematical Errors: when the amounts of transactions are recorded wrongly. it is called mathematical error. for example Rs. 10000 is entered in the books as Rs.1000 Since the original entry itself is of wrong amount, the trial balance will tally. Such error can be detected by checking calculations on the the voucher ,obtaining statement of accounts from parties etc.
- 2. Casting Errors: if errors are committed while taking the totals they are called casting errors they also include errors in carrying forward and and errors in taking out the balances.
- 3. Posting Errors: When errors is occurred while posting the entry in the books it is called posting errors. it may of wrong account ,wrong amount, wrong side. The former will not effect the trial balance. But latter two will affect the tallying of trial balance. It can also occur while posting amounts from registers into the ledgers
