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K19U 2305

Reg. No. : ....

Name : ....

V Semester B.Com. Degree (CBCSS-Reg./Sup./Imp.) Examination, November - 2019
(2014 Admn. Onwards)
CORE COURSE
5B12COM : AUDITING

Time : 3 Hours — Max. Marks : 40

PART - A

I. Answer **All** questions. Each carries ½ mark. (4×½=2)

1. Goodwill is an example of .... asset
2. The financial auditor works in the office, while the cost auditor works in the ....
3. Teaming and lading is a method of misappropriating................
4 An auditor is the .... of shareholder

PART - B

II. Answer any **Four** questions. Each carries **one** mark. (4×1=4)

5. What is private audit?
6. What is forfeiture of shares?
7. What is a qualified report?
8. What is an audit file?
9. What is internal audit?
10. What is routine checking?

P.T.O.

PART - C

III. Answer any **Six** questions (not exceeding one page).Each carries **Three** marks. **(6×3=18)**

11. Enumerate the importance of auditing
12. List out the contents of audit note book?
13. State the need of internal control
14. What are the objectives of vouching?
15. What are the differences between Valuation and Verification?
16. Bring out the difference between internal audit and internal check.
17. How will you vouch the payment of wages?
18. What are the disqualifications of a company auditor

PART- D

IV. Answer any **Two** questions. Each carries **Eight** marks. **(2×8=16)**

19. Briefly explain the rights and statutory duties of a company auditor
20. Elucidate the purpose and auditor's duty regarding the audit of a partnership firm
21. How would you decide a system of internal check with regard to cash transactions of business? Explain briefly

ANSWER KEY

PART A

I Answer all questions. Each carries ½ marks.

1. Intangible asset
2. Factory
3. Cash
4. Agent

[4x1/2 = 2]

PART B

II Answer four questions. Each carries one marks.

5. Where an audit is not compulsory under any statute, but is undertaken by the owners voluntarily to get the benefit of audit, the audit is called private audit
6. A **forfeited share** is a **share** in a company that the owner loses (forfeits) by failing to meet the purchase requirements. Requirements may include paying any allotment or call money owed, or avoiding selling or transferring **shares** during a restricted period.
7. When an auditor finds some irregularities in the books of accounts or in the financial statements, the auditor gives a report mentioning the irregularities. Such a report is called a qualified report. A qualified report is a report in which the auditor inserts any qualifications, modifications or reservations.
8. Audit file contains the working papers and other documents filed systematically for easy and ready reference. It is maintained by the principal auditor in his office. It serves as a guide for systematic and efficient audit. There are two types of audit files – Permanent and current files
9. It implies the audit of accounts by the staff of the business. Internal audit is an appraisal activity within an organization for the review of the accounting, financial and other operations. It is a type of control.
10. It is the checking and casting common books of accounts by the auditor. It involves Checking, casting and sub casting of such books., Checking of posting into ledger book., Checking the balances transferred from one book to another.

[4x1 = 4]

PART C

III Answer any six questions (not exceeding one page).Each carries three marks.

11. The importance of auditing can be summed in following points:
    a. Audited accounts help a sole trader in knowing the value of the business.
    b. Dispute over correctness of profits can be avoided.
    c. Shareholders can judge the performance of management from audited accounts.
    d. It helps management in detecting and preventing errors and frauds.
    e. Management gets advice on financial affairs from the auditors.

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f. Long and short term creditors depend on audited financial statements.

g. Taxation authorities depend on audited statements in assessing the tax.

h. Audited accounts are useful for the government while granting subsidies etc.

i. It can be used by insurance companies to settle the claims.

j. Serve as a basis for calculating purchase consideration in case of amalgamation.

k. It safe guards the interests of the workers because audited accounts are useful for settling trade disputes for higher wages or bonus.

12. **Contents of an Auditor's Note Book:**

1. A list of books of accounts maintained.
2. The names, duties and responsibilities of principal officers.
3. The particulars of missing receipts and vouchers.
4. Mistakes and errors detected.
5. The points which need clarifications and explanations.
6. The points deserving the attention of the auditor.
7. Various totals and balances.
8. The Points to be a part of auditor's report.

13. **Need of the Internal Control:**

1. Providing reliable data: Business decisions require accurate information to run the business efficiently. With the efficient internal control in place the accurate, required and reliable information can be provided for taking the important decisions and efficient performance of the activities.

2. To promote operational Efficiency: the controls within an organization are meant to prevent unnecessary duplication of efforts, protect against waste in all aspects of business and discourage other types of inefficient use of resources so as to promote the operational efficiency.

3. To encourage adherence to the prescribed policies: the system of internal control is meant to provide reasonable assurance that procedures and rules of various institutes are followed by company personnel.

4. Safeguarding assets and records: the physical assets of the company can be stolen, misused or accidently destroyed if not properly protected by adequate controls. The internal control helps to safeguard the physical assets and to secure the accuracy and reliabilities of the records of the company.

14. **Objectives of Vouching:**

1. All the transactions which are connected with the business have been recorded in the books of accounts properly.

2. To verify that all transactions recorded in the books of accounts are supported by documentary evidence.

3. The vouchers which support the entries are legally valid from the view point that they are authentic, addressed to the business and properly dated.

4. To verify that no fraud or error has been committed while recording the transaction in books of accounts.

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5. The vouchers have been processed carefully through various stages of internal check system.

6. While recording the transaction whether distinction has been made between capital and revenue items.

7. Whether accuracy has been observed while totaling, carrying forward and recording an amount in the account.

15. Difference between verification and valuation

- Verification means checking whether the assets shown in the balance sheet are in the name of business, whether they exist or not, whether there is any charge on it etc. Valuation means determining the proper values of assets and liabilities shown in the balance sheet
- Purpose -The purpose of verification is to check existence, ownership and possession of assets.
- The purpose of valuation is to determine the proper values of assets as per generally accepted principles.
- Basis- The basis of verification is the type of assets, and liabilities. There is not fixed method of verification. The basis of valuation is the types of assets are valued on different basis.
- Certificate- The auditor is not able to get certificate of verification of assets and liabilities. The auditor is entitled to get certificate of valuation of assets from responsible officer.
- Vouching- Verification includes vouching. Valuation does not include vouching.
- Scope- The scope of verification is wide. It includes checking of many things like existence, ownership, possession etc. The scope of valuation is limited. Here only values of assets and liabilities are determined and checked.

16. Both Internal Check and Internal Audit are part of the whole system of internal control, as such both are complementary and go together. There is a lot of difference b/w Internal Check and Internal Audit. Both differ from each other in the following respects:

1. Meaning: Internal Check is an arrangement of duties allocated in such a way that the work of one person is automatically checked by another.

Internal Audit is an independent appraisal of the operations and records of the company.

2. Object: The purpose of Internal Audit is to detect the errors and frauds The purpose of Internal Check is to prevent or minimize the possibilities of errors, frauds or irregularities.

3. Need for separate staff: for carrying out Internal Audit, a separate staff of employees is engaged for the purpose. For internal check, no new appointment is made. It, in fact represents only the arrangement of duties of the staff in a particular way.

4. Nature of work: Internal auditor has to report, from time to time, to the management about the various in efficiencies and suggest improvements. It is also his duty to see that the internal check system does not become static. Internal Check, on the other hand, represents a process under which the work goes on uninterruptedly and the checking too is more or less automatic.

5. Timing of work: Internal Audit starts when the accounting process of different transactions is finished. Internal Check is an operation during the course of transaction.

6. Internal audit: It is a device for checking the work, whereas internal check is a device for doing the work.

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7. In Internal Audit Errors and Frauds are detected after the completion of work, whereas in Internal Check the Errors and Frauds are discovered during the course of work.
8. Scope of work: The scope of Internal Check is very limited. The scope of Internal Audit is comparatively board.

17. **Wages:** wages paid and calculated for various months should be compared. If the wages of particular month differ from the preceding month, the auditor should look into the reasons for difference. Random checking of wages calculations should be made. The auditor should see the proper record is maintained for unpaid wages, deductions for any advance taken by the worker should also be verified, and deductions made from the wages should also be entered in the proper account. Special attention should be given to the payments made to casual workers.

18. **Disqualifications of an Auditor:**

The following persons shall not be eligible for the appointment as an auditor of a company:

a. An officer or employee of the company.
b. A person who is a partner, or who is in employment or an officer or employee of the company.
c. A person or a firm who, whether directly or indirectly has business relationship with the company, or subsidiary of such holding company or associate company of such nature as may be prescribed.
d. A person whose relative is director or is in the employment of the company as director or key managerial personnel.
e. A person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than 20 companies.
f. A person who has been convicted by a court of an offence involving

[6x3 = 18]

PART C

IV Answer any two questions. Each carries eight marks.

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1.Rights of a Company Auditor

- Right of access to books of account of Vouchers:
- Right to examine the cost records:
- Right to obtain information and explanations:
- Right to correct any wrong statement:
- Right to comment on the inadequacy of the accounting system in hisreport:
- Right to visit branches:
- Right to receive notice and other communications of general meeting: -
- Right to attend the general meeting of the shareholders
- Right to speak at the general meeting: -
- Right to sign the audit report: -
- Right to report to the members of the company: -
- Right to report to the members of the company: -
- Right to be indemnified: -
- Right to receive any remuneration for his audit work: -

- Auditor's right of lien:
- Duties and Responsibilities of a Company Auditor

2. **Statutory Duties**: - Statutory duties refer to the duties imposed by the statute.
   (1) Duty to make certain enquiries: - An auditor of a Company should enquire:
   - Whether loans and advances have been properly secured.
   - Whether loans and advances have been shown as deposits.
   - Whether the transactions of the company are not prejudicial to the interests of the company.

   4. Whether the personal expenses have been charged to revenue account.
   (2) Duty to Report: - An auditor of a company should make a report to the shareholders on the accounts examined by him and balance sheet and profit and loss account.
   (3) Duty to comply with the directives of the Central Government:
   (4). Duty to sign his audit report
   (5). Duty to give a statement in prospectus: - A prospectus issued by an existing company should contain a statement from the auditor.
   (6) Duty to certify the statutory report.
   (7). Duty to certify the declaration of the solvency of the company.
   (9). Duty to assist Central Government in connection with prosecution.
   (10). Duty to make report on public deposits.

20.

Purpose of Audit of Partnership Firm

- Auditing the accounts of a partnership firm helps in detecting errors & frauds & verification of financial statements
- Disputes, if any between any partners in the matter of accounts can be settled with the help of audited accounts.
- Banks & financial institutions lend money to the firms only on the basis of audited accounts.
- Periodical visits & suggestions by the auditor will be helpful in improving the management of the firm.
- For settling accounts between partners at the time of admission, death, retirement, insolvency, insanity, etc audited accounts are accepted by those concerned who have dealings with the firm.

Auditor's Duty Regarding Audit of Partnership Firm

- The auditor should get definite instructions in writing about the work to be performed.
- It must be clear, whether the work to be performed by him is in the nature of accountancy or auditing.
- If the auditor is asked to prepare IT Returns on behalf of the firm, the auditor should report the accounts as prescribed by the Central Board of Revenue.
- The auditor should read the partnership agreement & note the relevant provisions: Nature of the business.- Amount of capital contributed by each partner,- Interest on additional capital.- Duration of partnership,- Drawings.- Salaries, commission etc payable to partners,- Borrowing powers of the firm, Rights & duties of partners, - valuation of goodwill,- Settlement of accounts between partners at the time of admission, retirement, admission etc., Any loans advanced by the partners, Profit sharing ratio
- If there is any doubt in the agreement he should consult the client's solicitor

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- Auditor shall refer minutes book for any resolution passed regarding the accounts
- He should study the internal check system in operation.
- He should a list of the members & staff with their powers & duties.
- He should examine the contract entered into by the firm with the third parties.

21. Internal check with regard to cash transactions

Cash Receipts:

1. There should be a separate clerk known as cashier to deal with the receipts of cash. The cashier should not be authorized to keep cash with him. He should not be allowed to make expenditure out of it and to make entries in the books.
2. All receipts should be banked daily. From time to time the bank reconciliation statements should be prepared to reconcile bank and cash balances.
3. Bank pay- in-slips should not be prepared by the same person who is in charge of making actual deposits in the bank.
4. All receipts should be acknowledged by means of printed receipts. Counter-foils of all the receipts issued should be properly maintained. Unused receipt must be kept secured.
5. Spoiled receipts should be cancelled and not torn off. If some alterations is made in the receipts already written, it should be properly initialed.
6. Copies of receipts previously issued must be marked duplicate.
7. Some responsible persons of the firm should verify the balance of cash by carrying out a surprise physical check from time to time.

Cash Payments:

1. The person in charge of making payments should have no connection with the receipts of cash.
2. All payments should, as far as possible be by crossed cheques excluding petty cash payments.
3. Arrangements should be made to ensure that the vouchers supporting payments cannot be presented for the payments twice, such vouchers should be stamped as paid before the cheques are signed.
4. An official should check up the statements received from creditors and verify with the invoices and ledger accounts.
5. For sanctioning the payments of special nature, only directors and senior officers should be empowered.
6. Bank reconciliation statements should be prepared to reconcile bank and cash balances
7. Bank cheques must be held under lock and key with a responsible officer.
8. Receipts duly signed and stamped should be obtained for each payment.
9. Receipts so obtained should be properly arranged and maintained through proper filing system.
10. To ensure the availability of cash discounts, monthly or periodic payments should be made on the fixed dates.

[2x8= 16]