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Paper / Subject Code: 11109 / Financial Accounting & Auditing : Paper X Auditing.

Q.P. Code :32396

[Time: 2½ Hours]

[Marks: 75]

- N.B:**
1. All questions are compulsory.
 2. Question No.2 to 5 have internal options.
 3. Figures to the right indicate full marks.

Q.1 A) Rewrite the complete sentence and state whether it is true or false (Any Eight) 08

1. Planning helps the auditor to identify and resolve potential problems on a timely basis.
2. Audit programme helps the auditor to draft the report properly.
3. Primary objectives of auditing is to express an opinion on financial statements.
4. Credit sales of Rs.50, 000 are recorded in the purchase book is an error of commission.
5. Routine checking is verification of books of original entry.
6. Under internal control in purchases the order should be placed with approved suppliers.
7. Carbon copy of cash memo is the evidence of cash sales.
8. Credit notes are issued when goods are returned by customers.
9. Test checking should be used when the auditor has less time to complete the audit.
10. Goods worth Rs.2000 taken by proprietor for his personal use not recorded is an error of omission.

B) Match the following items in column 'A' with most appropriate item in column 'B' and rewrite :- (Any seven) 07

Column 'A'	Column 'B'
1. Internal report	• Must be written
2. Window dressing	• Does not disturb the trial balance
3. Error of principle.	• Paper prosperity
4. Investigation	• Minutes of meeting
5. Audit programme	• Special examination
6. Auditing	• Minimizes the work
7. Theft of assets	• Examination of accounts
8. Test check	• Approved suppliers
9. Verification	• Employee fraud
10. Purchase order placed	• To know truth of assets.

- Q.2 a) Define the term 'Auditing'. Explain the inherent limitations of auditing. 08
b) What is 'fraud'? Explain the different types of frauds? 07

OR

- c) What is 'window dressing'? Describe the auditor's duties regarding window dressing. 08
d) Explain the factors which are to be considered by an Auditor while developing an overall audit plan. 07

- Q.3 a) What is 'Audit programme'? Explain the essentials of good audit programme. 08
b) Explain the meaning and objectives of Internal control. 07

OR

- c) State the meaning and importance of 'Audit Working Papers'. 08
d) What are the different methods of selecting sample items? 07

- Q.4 a) Distinguish between 'Test checking and Routine checking'. 08
b) How would you verify 'Bills payable'? 07

OR

- c) What is 'Test Check'? Explain features of 'Test Checking'. 08
d) Briefly discuss a sample of internal control for 'Cash Sales'. 07

- Q.5 a) How would you vouch 'salaries & wages'? 08
b) How would you verify 'Plant and machinery'? 07

OR

- Q.5 Write short notes on the following : (Any three) 15

1. Features of Auditing
2. Financial statements
3. Objectives of audit planning
4. Audit note book
5. Current audit file

Q. P. Code : 31094

Time: 2½ Hours

Total Marks: 75

- NB: 1 All questions are compulsory
 2 Figures to the right indicate full marks
 3 Working notes should form part of your answers
 4 Use of simple calculator is allowed

Q1A State whether the following statements are True or False. (Any 8) (08)

- 1) Fixed deposits with banks should be disclosed under cash and Bank balances in the Balance sheet of a Co-operative Housing Society.
- 2) Commission to salesman is allocated in the Time ratio while calculating profits for the pre and post incorporation period
- 3) The balance in the Foreign exchange fluctuation account should be transferred to capital reserve a/c at the end of the year
- 4) The loss before date of incorporation of a limited company is transferred to goodwill.
- 5) Super profit is the profit earned over and above the normal profit
- 6) General Reserve is an example of Free reserve
- 7) A company cannot buyback more than 25% of its paid up equity capital in any financial year
- 8) Inventory is an example of non- monetary item
- 9) Intrinsic value of equity shares is calculated by dividing 'net assets available to Equity share holders' by 'total number of equity shares'
- 10) Transfer fees received by the Co-operative Housing Society on transfer of shares should be shown under Reserve Fund

Q1B Match the Columns (Any 7) (07)

Group A	Group B
1) Buyback of shares	Foreign currency transactions
2) Debt Equity ratio after buyback of equity shares	Difference due to different rates
3) Balance sheet of Co-operative Housing society	$\frac{100 \times \text{FMP}}{\text{NRR}}$
4) Goodwill	To be allocated in sales ratio
5) Capitalised value of FMP	To be allocated in time ratio
6) Advertisement expenses	Post incorporation period
7) Debenture interest	Average rate
8) Entrance fees	must not exceed 2:1
9) Mean of Exchange rates	Form 'N'
10) AS-11	Add to Reserve fund
	An intangible asset
	SEBI guidelines

Q. P. Code : 31094

2. RR Pvt. Ltd. was incorporated on 30th July, 2016. This company agreed to take over business of T. R. & Co. as going concern with effect from 1st April, 2016. The Profit and Loss Account A/c for the year ended 31st March, 2017 is given below:

Particulars	Rs	Particulars	Rs
To Office Salaries	30,000	By Gross Profit	4,00,000
To Office Rent	45,000	By Interest on Investment	10,000
To Printing and Stationery	15,000		
To Electricity Charges	7,500		
To Advertisement	26,000		
To Travelling Expenses	15,000		
To Auditor's Fees	22,500		
To Commission on Sales	40,000		
To Preliminary Expenses	5,000		
To Interest on Debentures	10,000		
To Net Profit	1,94,000		
Total	4,10,000	Total	4,10,000

Additional Information:

1. Investment was made in October 2016.
2. Sales arise evenly per month upto 30/9/2016, where after they record an increase of two-third per month during the rest of the period.
3. Travelling Expenses includes Rs 3,000 which are fixed in nature.
4. Audit fees are paid for the whole year.

Prepare Profit and Loss A/c for the year ended 31st March 2017 in the columnar form appropriating all income and expenditure items between Pre-incorporation and Post-incorporation period on suitable basis. (15)

OR

2. On 1/1/2017 RA Ltd., has imported goods from Australia based company Zubin & Co. Australian(AS\$)1,00,000\$ at an exchange rate of Rs 48 per AS\$ The Payments were made as follows:

Date	AS\$	Exchange Rate per AS\$
1/2/2017	10,000	Rs 53
1/3/2017	20,000	Rs 47
1/5/2017	70,000	Rs 52

The accounting year ends on 31st March. The Exchange Rate as on 31/3/2017 was Rs 49 per AS\$.

Pass necessary Journal Entries in the books of RA Ltd. and Prepare Foreign Exchange Fluctuation A/C. (15)

Q. P. Code : 31094

3. From the following trial balance as on 31.3.2017 of "Shalimar CHS Ltd.", prepare Income & Expenditure A/c for the year ended 31st March, 2017 and the Balance Sheet as on that date in the format required under Maharashtra Cooperative Societies Act.

Debit Balances	Rs	Credit Balances	RS
Insurance Charges	1,06,485	Interest- Fixed Deposit	7,71,231
Income & Expenditure A/c:		Collection from Members	
Balance b/d	2,22,827	for Establishment Expenses	54,21,600
Non-Agricultural Tax	5,275	Statutory Reserve Fund	1,66,86,146
TDS Refund Due	4,801	Subscribed Capital:	
1 Share of MDC Co-op Bank	1,000	1, 225 shares of Rs.50 each	61,250
Water Charges	5,84,241	Collection from Members	
Equipments	4,46,910	for Property Expenses	49,78,510
Establishment Expenses	30,67,592	Security Deposits from	
Electricity Charges	12,12,634	Members	6,03,000
Land and Building	1,45,29,318	Interest- Savings Bank	86,475
Cash in Hand	4,502	Members Contribution for	
Repairs and Maintenance	13,64,379	Building	1,45,29,318
Cash at Bank	12,96,699	Móbile Tower Rent	8,40,823
Loan & Advances	1,42,950		
Property Taxes	36,00,233		
Fixed Deposits	1,73,80,507		
Furniture	8,000		
Total	4,39,78,353	Total	4,39,78,353

Additional Information:

1. Authorised Capital: 6,000 shares of Rs 50 Each.
2. Dues receivable from members towards Establishment Expenses Rs 1,24,120
3. Prepaid Insurance Rs 15,612
4. Depreciate Furniture by 10% and Equipment by 15%
5. Outstanding Electricity Charges Rs 1,97,122

(15)**OR**

3. Arjun & Co. decided to purchase the business of Mamta & Co. on 31.12.2017. Profits of Mamta & Co. for the last 4 years were:

2014: Rs 24,000; 2015: Rs 32,000; 2016: Rs 50,000; 2017: Rs 62,000

The following additional information about Mamta & Co. is supplied:

- a. A casual income of Rs 6,000 was included in the profit of 2014 which can never be expected in future.
- b. Profit of 2015 was reduced by Rs 2,000 as a result of an extraordinary loss by fire.
- c. After acquisition of the business, Arjun & Co. has to pay insurance premium of Rs 2,000 which was not paid by Mamta & Co.
- d. Due to purchase of business, it is expected that the volume of business will increase and therefore Arjun & Co. will have to hire premises for which rent will be Rs 2,000 p.m.
- e. The business of Mamta & Co. was managed by a salaried manager who was paid a monthly salary of Rs 800. Now, Mr. Arjun the proprietor of Arjun & Co. decides to manage the firm after replacing the manager.

Compute the value of Goodwill on the basis of 3 years purchase of the average profit for the last 4 years.

(15)

Q. P. Code : 31094

4. The following is the Balance Sheet of Beena Ltd. as on 31-3-2017:

Liabilities	Rs	Assets	Rs
2,00,000 equity shares of Rs10 each	20,00,000	Fixed Assets	40,00,000
10% preference shares of Rs10 each	10,00,000	Investments	2,00,000
Profit & Loss Account	2,00,000	Stock	5,00,000
General Reserve	4,00,000	Debtors	7,00,000
Security Premium	4,00,000	Bank Balance	6,00,000
9% Debentures	12,00,000		
Sundry Creditors	8,00,000		
Total	60,00,000	Total	60,00,000

On the same date it was decided to buy back maximum number of shares at the maximum possible price permissible under the law.

Pass necessary Journal entries to record the above transactions and prepare Notes to Accounts of Share Capital and Reserves and Surplus after Buyback. (Do not prepare Balance Sheet)

(15)

OR

4. Mr. Ketan intends to invest Rs 66,000 in equity shares of a Victory Ltd and seeks your advice as to the maximum numbers of shares he can expect to acquire based on a intrinsic value of the shares to be determined by you.

The following information is available:

	Rs
Issued and Paid up capital: 6% Preference shares of Rs.100 each	11,00,000
Equity Shares of Rs 10 each	7,00,000
Total	18,00,000

Average net profit of the business is Rs 1,50,000. Expected normal yield is 8% in case of such equity shares. It is observed that the net assets on revaluation are worth Rs 1,40,000 more than the amounts at which they are stated in the books. Goodwill is to be calculated at 5 years purchase of the super profits, if any. Ignore Taxation. Consider closing capital employed as average capital employed.

(15)

Q5A. What are the basis of allocation of expenses and incomes for calculating pre and post incorporation profits/ loss? (08)

Q5B. What is goodwill? Explain super profit method of valuing goodwill. (07)

OR

Q5. Write short notes on (any three) (15)

- Sinking Fund of Cooperative Housing Society
- Yield method of Valuation of shares
- Need for conversion of foreign currency transactions
- Sources of buyback of Equity shares
- Balance Sheet of Co-operative Housing Society
