Auditing & Cost Accounting

April 2009

N.B: (1) Question Nos. 1 and 6 are compulsory and answer any two from the remaining of each section.
(2) Figures to the right indicated full marks allotted to the question
(3) Working notes wherever necessary should form part of answer
(4) Answer both the sections in the same answer-book.

Section – I (Auditing)

(9) (a) What do you understand by the term 'Fraud'? How would you classify the Frauds" (10)

(b) How would you vouch the following? (8)

(i) Interest on Investments

(ii) Share issue expenses

(10)(a) Explain the term "True and Fair View". (8)

(b) What is test checking? What precautions should be taken by an Auditor while applying this technique? (8)

(3) (a) Discuss the disclosure requirements of "Miscellaneous Expenditure (Not Written Off)" as per Schedule VI of the Companies Act 1956. (8)

(b) What is Internal Audit? What are its objectives? (8)

(4) (a) Distinguish between Audit Report and Certificate. (8)

(b) Scrutinise and give your comments as an Auditor on the following Ledger Account. (8)

In the Books of M/s. G & P Co.

Mr. Vivek Account

Dr. **Cr.**

Date 2008	Particulars	Rs.	Date 2008	Particulars	Rs.
8th Jan	To Bank	19,600	1st Jan	By Balance b/d	20,000
8th Jan	To Discount	400	10th Jan	By Purchases	60,000
12th Jan	To Bills Payable	40,000	25th Jan	By Purchases	33,000
12th Jan	To Bank	19,600	10th Feb	By Purchases	42,000
12th Jan	To Discount	400	15th Feb	By Bills Payable	40,000
2nd Feb	To Bank	29,400	15th Feb	By Interest	600
2nd Feb	To Discount	600	25th Feb	By Purchases	35,000
2nd Feb	To Purchase Returns	3,000			
12th Feb	To Bills Payable	42,000			
15th Feb	To Bank A/C	20,6000			
15th Feb	To Bills Payable	20,000			
29th Feb	To Balance o/d	35,000			
		2,30,600			2,30,600

(5) **Write short notes on** (any **four**) of the followings: (16)

(a) Verification of Furniture

(b) Confirmation as a technique of Auditing

(c) Removal of Subsequent Auditor

(d) Appointment of Auditor by special resolution

(e) Computer Assisted Audit Technique

(f) Internal Check

Section – II (Cost Accounting)

(6) Following is the Profit and Loss Account, as per financial records, of M/s Trupti Traders for the year ended 31st March 2008. (20)

Particulars		Rs.	Particulars	Rs.
To Opening Stock (Finished –6,000 units)		59,760	By Sales (90,000 units)	11,70,000
To Raw Materials Consumed		5,19,400	By Closing Stock (Finished –4,500 units)	52,776
To Carriage Inwards		5,100	By Bank Interest	410
To Direct Wedges		72,872	By Dividend	6,900
To Salesmen Commission		38,520		
To Office Salaries		25,368		
To Motor Car Expenses		18,384		
To Advertisement		61,920		
To Directors Remuneration:				
Office	12,000			
Works	12,000			
Sales	14,400	38,400		
To Indirect Wages		20,268		
To Plant Depreciation		11,472		
To Workmen Compensation Reserve		13,275		
To Office Rent		6,900		
To Carriage Outward		4,476		
To depreciation on Delivery Van		6,000		
To Factory Fuel		9,000		
To Packing & Forwarding		6,240		
To Miscellaneous Factory Expenses		5,040		
To Preliminary Expenses w/off.		4,200		
To Audit Fees		2,520		
To General Office Expenses		1,500		
To Factory Rent		18,720		
To Loss On Sales Of Investments		4,017		
To Insurance:				
Office	300			
Sales	720			
Factory	1,800	2,820		
To Printing And Stationery		720		
To Depreciation:				
Factory Furniture	600			
Office Furniture	900			

Showroom Furniture 420	1,920		
To Telephone Charges:			
Office 129			
Sales 627	756		
To Legal Fees	504		
To Net Profit c/d to B/S	2,59,226		
	12,30,086		**12,30,086**

Closing stock in cost Accounts is valued t cost of production. However opening stock records is same as per financial records.

Prepare:

(a) Detailed cost statement showing to talk cost (excluding per unit) and profit.

(b) Reconciliation statement showing reconciliation of Profits.

(7) M/s Rajendra Constructions obtained a contract to build a Fly-over Bridge at a contract price of Rs. 150 lacks. The contractee agrees to pay 90% of value of the work done as certified by the architect immediately on receipt of the certificate and to pay the balance on contract. The contractor commenced the work on 1st may 2007 and it is estimated to be completed by 31st December, 2008. The actual expenditure up to 31st March 2008 and subsequent estimated expenditure upto 31st December, 2008 is furnished below. (15)

Particulars	Actual Expenditure Upto 31-03-2008 Rs.	Estimated Expenditure from 1/4/2008 to 31/12/08 Rs.
Direct materials	33,50,000	28,00,000
Indirect materials	5,60,000	7,00,000
Direct wages	8,42,000	7,95,000
Sub-contract charges	98,000	52,000
Architect fees	1,84,000	2,84,000
Administrative overheads	6,50,000	4,50,000
Special equipment charges	4,86,000	2,54,000
Supervision charges	10,000 p.m.	12,000 p.m.
Establishment charges	8,000 p.m.	9,000 p.m.
Other details:	**Actual (Rs)**	**Estimated (Rs)**
Cash received	67,50,000	82,50,000
Closing material at site	4,10,000	-
Uncertified work	1,80,000	-
Certified work (Cumulative)	75,00,000	1,50,00,000

A Special Machinery Costing Rs. 13, 40,000 was bought for the contract and the estimated scrap value of the machinery at the end of the contract would be Rs. 1, 40,000.

It is decided that the Profit to be taken credit for should be that proportion of the estimated net profit to be realized on completion of the contract which the certified values of work as on 31st March 2008.

(8) A product passes through three processes viz. U.P and A. The following details are available from books and records for the year ended 31st March 2008. (15)

Particulars	U Process	P Process	A Process
Units Introduced	2,000	-	-
Cost per unit	Rs. 12	-	-
Sundry Materials	Rs. 10,400	Rs. 7,920	Rs. 11,428
Direct Labour	Rs. 8,000	Rs. 12,000	Rs. 16,000
Direct Expenses	Rs. 6,000	Rs. 8,000	50 % of Direct Labour
Production overheads	25% Direct Labour	50% of Direct Expenses	100 % of Direct Expenses
Normal Loss(% of input of the process)	5%	10 %	15 %
Realisable value of Scrap (Rate per unit)	Rs.10	Rs. 14	Rs. 20
Actual Output (units)	1,900	1,680	1,470

The output of each process passes directly to the next process and finally to the finished stock.

You are required to prepare:

(a) Process Accounts

(b) Normal Loss Account

(c) Abnormal Loss and Abnormal gain Account.

(9)

a) Calculate Material Cost variance, Material Price variance and Material usage variance from the following data: (6)

Standard – For 5 units of Production 'A'

Material – 80 kg. @ Rs. 20,00 per kg.

Actual Production = 800 units.

Material – 13,000 kg. @ Rs. 19.50 per kg.

b) Following particulars are available in respect of A Ltd. A and B Ltd. (9)

Particulars	A Ltd.	B Ltd.
Sales	Rs. 6,00,000	Rs. 6,00,000
P/v Ration	25%	20%
Fixed Cost	Rs. 90,000	Rs. 80,000

Calculate:

a) Break Even Point of both companies

b) Margin of safety of both companies

c) Sales required to earn a profit of Rs. 90,000 by each company.

10. Write short notes on any three of the following: (15)

(a) Cost classification by behaviour

(b) Causes of differences in profits between Financial and Cost records.

(c) Advantages of Marginal costing

(d) Variable overhead variances

(e) Retention Money