

Kanoria PG Mahila Mahavidyalaya

Department of ABST

B.Com Part III

Paper-I (Auditing and Management Accounting)

Answer the following questions:

1. What is meant by Audit? Write objectives and advantages of Audit.
2. Discuss any five types of Audit in detail.
3. "Two main functions of Audit are the prevention and detection of errors and frauds." Explain.
4. Write the limitations of Audit in detail.
5. Give the main types of errors and frauds found in accounts with illustrations. Can the auditor prevent such errors and frauds?
6. Explain the difference of book-keeping, accountancy and auditing in detail
7. "Accountancy is a necessity while auditing is a luxury for a business enterprise." Do you agree? Give reasons for your opinion and examine critically the role of auditing in the efficient, honest and economical conduct of a business concern.
8. Differentiate between audit principles, process and techniques.
9. What is Audit Programme? Discuss objects of audit programme and its construction.
10. Discuss essential elements of a good audit programme.
11. What is Routine Checking and Test Checking? Describe the advantages and disadvantages of both.
12. Define Internal Control. Differentiate between Internal Check and Internal Audit.
13. Explain the following:
 - Internal Audit can not replace Internal Check
 - Internal Audit is no substitute for Statutory Audit.
14. What do you mean vouching? Describe the importance of vouching.

15. How will you vouch the following:

- Cash Sales
- Income from Investments
- Rent
- Bad Debts

16. "Vouching is the backbone of auditing." In the light of this statement discuss the importance of vouching.

17. What do you mean by Verification and what are the objects of such verification.

18. "Stock should be valued at cost or market price whichever is lower." Examine this statement critically and point out any possible departure from this principle

19. What do you understand by Verification of Assets and Liabilities?" Describe the principle of verification of Assets.

20. How will you verify the following:

- Goodwill
- Stock
- Investment
- Contingent Liabilities

21. What are the provisions of Companies Act 2013 regarding the appointment, removal and remuneration of auditors of companies.

22. Discuss the methods of appointments of company auditor in brief.

23. Write notes on:

- Appointment of Auditor by Company
- Removal of Company Auditor
- Remuneration of Company Auditor

24. "An Auditor is not an insurer. He does not guarantee complete correctness of Balance Sheet." Discuss

25. Discuss briefly, giving illustration the auditor liability for negligence in the performance of the auditor.
26. Discuss the liability of an auditor towards third party.
27. "An auditor is a watch dog, not a blood hound" Explain the statement.
28. "Existence of power is quite essential to enable the compliance of duties." Explain in detail the provision of Companies Act in the context of above statement.
29. Discuss the statutory duties of a company auditor. Can they be restricted or increased by the articles or memorandum of the company.
30. State the decision given in "London and General Bank Case" in relation to misfeasance.
31. Explain the meaning, scope and objectives of Management Accounting.
32. How Management Accounting is different from Financial and Cost Accounting?
Explain the utility of Management Accounting in Business Management.
33. "Management Accounting has been evolved to meet the needs of Management."
Explain this statement fully.
34. What do you understand by Capital Structure of a company? Distinguish it from financial structure and asset structure.
35. Explain the principle of Trading on Equity? Discuss its utility to the management and point out its limitations.
36. The capital structure of Jai Bharat Ltd. as on 1st April, 2019 was as under:

Equity Shares of Rs. 100 each	3,20,000
7% Preference Shares of Rs. 100 each	2,00,000
6% Debentures of Rs. 100 each	2,00,000
Reserves	80,000

The rate of return of capital is 10%. The company needs ` 2,00,000 for expansion programme. The rate of corporate Tax is 50%. There are three alternatives available to the company to finance its expansion programme, viz:

- (i) Issue of 1,600 equity shares of ` 100 each at a premium of ` 25.
- (ii) Issue of 8% preference shares.
- (iii) Issue of 7% debentures.

Which alternative is best and why?

37. The capital structure of ABC Ltd. is as under:

Equity Shares of ` 100 each	40,00,000
Retained Earnings	20,00,000
8% Preference Shares	24,00,000
7% Debentures	16,00,000

The Company earns 12% on its capital. The rate of Tax applicable is 35%. The company requires as sum of ` 50,00,000 for which following options are available to it:

- (i) Issue of 40,000 equity shares at a premium of ` 25 per share.
- (ii) Issue of 9% preference shares.
- (iii) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity shares, preference shares and debentures financing would be 22.5, 18.5 and 15.2 respectively. Which of the three financing alternatives would you recommend and why?

38. Discuss briefly the 'Net Income', 'Net Operating Income' and 'Traditional Approaches' to capitalisation.

39. XYZ Ltd. has net operating income of ` 2,00,000 on an investment of ` 10 lakhs in assets. It has debt of ` 3,00,000 at 16% rate of interest. Assume that taxes does not exist.

- (i) Using Net Income Approach and an equity capitalisation rate of 18%; compute the total value of the firm and overall cost of capital.

(II) Using Net Operating Income Approach and an overall capitalisation rate of 12.5%; compute the total value of the firm, value of shares and cost of equity.

40. There are two firms P and Q which are exactly identical except that P does not use any debt in its financing while Q has ` 4,00,000 10% debentures in its financing. Both the firms having earnings before interest and tax of ` 3,20,000 and the after tax capitalisation rate is 16%. Assuming the corporate tax of 50%, calculate the value of the firm according to M-M Approach.

41. "It is said that financial statements reflect a combination of recorded facts, accounting conventions and personal judgement." Explain this statement.

42. What do you mean by Analysis of Financial Statements? Discuss its objects and limitations.

43. From the following Statement of Profit and Loss, prepare Comparative Statement of Profit and Loss of ABC Ltd:

Particulars	31 st	March	31 st	March
	2020		2019	
	()		()	
A. Income				
Revenue from Operations	33,00,000		30,00,000	
Other Income	60,000		60,000	
Total (A)	33,60,000		30,60,000	
B. Expenses				
Purchases of Stock-in-Trade	24,00,000		23,00,000	
Change in Inventories of Stock-in-trade	1,20,000		1,00,000	
Employees Benefit Expenses	60,000		60,000	

Finance Costs	90,000	80,000
Other Expenses		
Total (B)	27,60,000	26,10,000
Profit (A-B)	6,00,000	4,50,000

44. Construct Common Size Balance Sheet from the following Balance Sheet of ABC Ltd. and comment on the significant changes:

Balance Sheet of ABC Ltd.

As on 31st March 2020 and 2019

Particulars	31 st March	31 st March
	2020 (₹)	2019 (₹)
A. Equity and Liabilities		
(i) Shareholders' Funds		
(a) Share Capital	2,70,000	2,74,000
(b) Reserves and Surplus	70,000	1,52,000
(ii) Non-Current Liabilities		
Long-Term Borrowings: (Secured Loans)	2,32,000	1,00,000
(Unsecured Loans)	2,06,000	5,96,000
(iii) Current Liabilities	50,000	1,25,000
(a) Short Term Borrowings (Secured Bank Overdraft)	20,000	1,00,000
(b) Trade Payables	3,000	50,000
(c) Other Current Liabilities	5,000	23,000
(d) Short Term Provisions		
Total (A)	8,60,000	14,20,000
B. Assets		
(i) Non-Current Assets		
(a) Fixed Assets-Tangible Assets (Net)	4,30,000	5,68,000
(b) Non-Current Investments	4,000	6,000
(ii) Current Assets		
(a) Inventories	2,16,000	4,26,000

(b) Trade Receivables	1,40,000	3,30,000
(c) Cash and Cash Equivalents	65,000	80,000
(d) Other Current Assets (Prepaid Expenses)	5,000	10,000
Total (B)	8,60,000	14,20,000

45. Following is the Balance Sheet of Ram Mills Limited as on 31st March 2020.

Particulars	₹	₹
A. Equity and Liabilities		
(a) Shareholders' Funds		
i. Equity Share Capital	5,70,000	
ii. 12% Preference Shares Capital	<u>1,00,000</u>	6,00,000
iii. Reserve and Surplus		
(b) Non-Current Liabilities		4,00,000
14% Debentures		
(c) Current Liabilities		7,00,000
(c) Trade Payables		
(d) Short Term Provisions (Provision for Tax)		1,60,000
(e) Other Current Liabilities		1,30,000
		10,000
Total (A)		20,00,000
B. Assets		
(a) Non-Current Assets		
Fixed Assets-Tangible Assets		13,00,000
(b) Current Assets		

(a) Current Investments		1,50,000
(b) Inventories		3,00,000
(c) Trade Receivables		2,00,000
(d) Cash and Cash Equivalents		50,000
Total (B)		20,00,000

45. The ratios relating to Sterling Ltd. are given below:

Gross Profit Ratio	15%
Inventory Velocity	6 Months
Trade Receivables Velocity	3 Months
Trade Payable Velocity	3 Months

Gross Profit for the year ending March 31, 2020 amounts to ` 60,000. Closing

Inventory is equal to Opening Inventory.

Find out:

- (i) Revenue from Operations
- (ii) Closing Inventory
- (iii) Trade Receivables
- (iv) Trade Payables

46. The following are the ratios extracted from the Balance Sheet of a company as at 31st

March 2020. Draw up Balance Sheet of the Company.

Current Liabilities	1.0
Current Assets	2.5
Liquidity Ratio	1.5
Inventory Turnover Ratio (based on cost of revenue from operations)	6

Fixed Asset Turnover (based on revenue from operations)	2
Gross Profit as percentage of revenue from operations	20%
Trade Receivables Collection Period	2 Months
Working Capital	` 3,00,000
Share Capital	` 5,00,000
Reserves and Surplus	` 2,50,000

47. What is Cash Flow Statement? Discuss its main uses and limitations and give a specimen of cash flow statement by indirect method using imaginary figures.

48. Following is the balance sheet of S.K Limited as at 31st March 2020 and 31st March 2019.

Particulars	31 st March	31 st March
	2020	2019
	([₹])	([₹])
A. Equity and Liabilities		
(i) Shareholders' Funds		
(a) Equity Share Capital	3,50,000	3,00,000
(b) Reserves and Surplus		
Securities Premium	30,000	-
General Reserve	65,000	45,000
Statement of Profit & Loss	80,800	30,000
(ii) Non-Current Liabilities		
Long-Term Borrowings: 14%	70,000	
Debentures		
(iii) Current Liabilities	90,700	85,000
Trade Payables	40,500	22,500
Provision for Taxation	35,000	30,000
Proposed Dividend		
Total (A)	7,62,000	5,12,000
B. Assets		
(i) Non-Current Assets		

Fixed Assets-Tangible Assets		
Land and Building	3,90,000	2,30,000
Plant and Machinery	1,40,000	85,400
Furniture	6,500	5,500
(ii) Current Assets		
Inventories	95,700	82,400
Trade Receivables	85,500	75,000
Cash and Cash Equivalents	44,300	34,200
Total (B)	8,60,000	14,20,000

Additional Informations:

Depreciation written off during the year:

Land and Building ` 60,000

Plant and Machinery ` 50,000

Furniture ` 1,200

You are required to prepare a Cash Flow Statement.

49. From the following Balance Sheets of XYZ Ltd., prepare a Cash Flow Statement.

Particulars	31 st	March	31 st	March
	2020		2019	
		()		()
A. Equity and Liabilities				
Shareholders' Funds				
Equity Share Capital	4,00,000		3,00,000	
12% Preference Share Capital	1,00,000		1,50,000	
General Reserve	70,000		40,000	
Statement of Profit & Loss	48,000		30,000	
Current Liabilities				
Short Term Borrowings (Cash Credit)	16,000		20,000	
Trade Payables	83,000		55,000	
Short Term Provisions	1,00,000		82,000	
Total (A)	8,17,000		6,77,000	

B. Assets		
Non-Current Assets		
Fixed Assets-		
Tangible Assets	3,70,000	2,80,000
Intangible Assets : Goodwill	90,000	1,15,000
Current Assets		
Inventories	1,09,000	77,000
Trade Receivables	2,30,000	1,80,000
Cash and Cash Equivalents	18,000	25,000
Total (B)	8,17,000	6,77,000

Additional Informations:

- (i) Depreciation of ` 10,000 and ` 20,000 have been charged on Plant and Machinery & Land and Building respectively in 2019-20.
- (ii) An interim dividend of ` 20,000 has been paid in 2019-20.
- (iii) Income Tax of ` 35,000 was paid during the year 2019-20.

50. Shailendra Ltd. has the following balance as on 1st April 2019.

Fixed Assets	6,00,000
Less: Depreciation	<u>2,10,000</u>
	3,90,000
Bank Balance	35,000
Current Assets (Except Bank Balance)	2,50,000
Current Liabilities	1,00,000

Capital (Shares of ` 100 each) 3,00,000

The company made the following estimates for 2019-20.

(i) The profit would be ` 55,000 after depreciation of ` 60,000.

(ii) The company will acquire fixed assets costing ` 1,00,000 after selling one machine for ` 20,000; costing ` 50,000 on which depreciation provided amounted to ` 35,000.

(iii) Current Assets and Current Liabilities, other than bank balance, at the end of 2019-20 are expected to be ` 2,95,000 and ` 1,30,000 respectively.

(iv) The company will pay a free of tax dividend of 10%, the rate of tax being 25%.

Ascertain the bank balance (or overdraft) of Shailendra Ltd. at the end of 2019-20.