Auditing & Costing

March 2007

Time: 3 Hours
Marks: 100
NB:

1. Question Nos. **1** and **6** are **compulsory** and answer any **two** from the remaining from**each** section.
2. Figures to the **right** indicate **full** marks.
3. Working notes should form part of answer.
4. Answer **both** the sections in the **same** answer-book.

Section I-(Auditing)

Q.1 (a) Distinguish between Verification and Vouching. 10

(b) How would you vouch the following ? 8

1. (i)) Advertisement Expenses.
2. (ii)Cash Sales.

Q.2 (a) Describe four cases in which an Auditor must qualify his Audit Report. 8
(b) Explain the disclosure requirements of Schedule VI of the Companies Act, 1956, relating to contingentliabilities 8

Q.3 (a) Explain different techniques of an audit. 8
(b) Discuss the procedure for removal of a company auditor. 8
Q.4 (a) What are the qualifications and disqualifications of a company auditor? 8
(b) Scrutinise and comment on the following ledger accounts: 8

(i) In the books of Bhumika Computers Ltd.

Dr. Date 2006	**Particulars**	**Salaries Amount Rs.**	**Account Date 2006**	**Particulars**	**Cr. Amount Rs.**
April, 10	To Bank (March)	10,000	Sept. 30	By Profit and Loss A/c	60,000
May, 8	To Bank (April)	10,000			
June, 10	To Bank (May)	10,000			
July, 10	To Bank (June)	10,000			

Aug, 10	To Bank (July)	10,000			
Sept, 10	To Bank (Aug.)	10,000			
	Total	**<u>60,000</u>**		**Total**	**<u>60,000</u>**

(ii)In the books of M/s. Paresh & Sons Ltd.

Dr. Interest on Investment Account Cr.

Date 2006-07	**Particulars**	**Amount Rs.**	**Date 2006-07**	**Particulars**	**Amount Rs.**
April,1	To Interest Accrued on Investment	1,200	June, 30	By Bank	2,400
			Sept., 30	By Bank	1,600
March 31	To P & L A/c	6,600	Dec., 31	By Bank	2,400
			March, 31	By Interest Accrued on Investment	1,400
	Total	**<u>7,800</u>**		**Total**	**<u>7,800</u>**

Q.5 Write short notes on any four of the followings:- 20

(a) Secret Reserves.

(b) Casual vacancy in the office of the auditor.

(c) Teeming and Lading.

(d) Impact of EDP on Auditing.

(e) Internal check.

(f) Importance of Internal Audit.

Section II (Costing).

Q.6 Mr. Raj Contractors and Builders have obtained a contract for constructing a Housing Complex. The contract work commenced on 1st July, 2003 and was completed on 31st January, 2006. The year ending of the company is 31st March. The contract price was Rs. 800 lacs. 20

The Contractee agrees to pay 90% of the value of the work done as certified by the Architect immediately. A machine costing Rs. 60,00,000 was specially bought and used for the contract. The residual value of the machine as on 31st January, 2006 was Rs. 29,00,000. Depreciation is to be effected on a straight line basis.

You are provided with the following information:â€“

Particulars	2003-04 Rs.	2004-05 Rs.	2005-06 Rs.
Materials Purchased	27,50,000	86,25,000	19,75,000
Direct Labour	78,52,500	90,36,500	1,03,00,000
Architect Fees	2,50,000	4,50,000	5,00,000
Supervision Charges	1,22,000	1,85,000	2,76,000
Overhead Charges	67,75,500	41,66,500	87,11,000
Materials on Site at the end of the year	50,000	1,25,000	75,000
Uncertified Work at the end of the year	2,00,000	4,00,000	
Money Received from the Contractee during the year	1,80,00,000	3,60,00,000	2,60,00,000

As per the policy of the company, no profit is to be considered unless the certified work completed exceeds 20% of the total contract price. Thereafter, profit is to be taken credit for in the same proportion as the cumulative amount received bears to the contract price.

Prepare:
(i) Contract Account for all three years and
(ii) Show the relevant extracts on the Assets side of Balance Sheet as on 31st March of every year.
Q.7 M/s. XYZ and Company manufacture a chemical which passes through three processes. The following particulars gathered for the month of January, 2006.:- 15

Particulars	Process I	Process II	Process III
Material (litre)	400	208	168
Materials Cost	Rs. 38,400	Rs. 18,800	Rs. 6,000
Wages	Rs. 7,680	Rs. 7,600	Rs. 2,200
Normal Loss (% of input)	4%	5%	5%
Scrap Sale Value	â€”	Rs. 3 per litre	
Output Transferred to next Process	50%	40%	
Output Transferred to Warehouse	50%	60%	100%

Overheads are charged @ 50% of Direct Wages.
You are required to prepare Process Accounts.

Q.8 The Management of a manufacturing concern has approached the Costing Department to find out the cost of 6,000 units. The cost analysis of 4000 units gives the following results :- 15

(i) Materials Rs. 90,000.
(ii)Labour Rs. 50,000.
(iii) Direct Expenses Rs. 1,000.
(iv)Factory Overheads Rs. 2,000.
(v)Administrative Overheads Rs. 1,600.
(vi)Selling and Distribution Overheads Rs. 800.
The further details in this connection are as follows:-
(a) An increase of 10% is expected in the cost of raw material and 5% in the cost of labour.
(b) 70% of the factory overheads are fixed and 30% are variable.
(c) The ratio of fixed and variable part of administration overheads is 60:40.
(d) 50% of the Selling and Distribution overheads are fixed.
The management desires to charge 25% profit on sale price.
Prepare cost statement with maximum break up of cost and ascertain selling price for the production of 6000 units.

Q.9 (a) A company produces and sells 1500 units of a commodity at Rs. 20 each. The variable cost of production isRs. 12 per unit and fixed cost Rs. 8,000 per annum: - 15

Calculate:
(i) PN ratio.
(ii) Sales at break-even point and

(iii) Additional sales required to earn the same amount of profit if selling price is reduced by 10 percent.
(b) Calculate Material and Labour variances from the following data:

Standard (Per Unit)	
Material	6 kg @ Rs. 4 per kg.
Labour	4 hours @ Rs. 4 per hour
Actual Production for the month	12500 units
Actual Material Price per kg.	Rs. 4.50
Material used during the month	78000 kg.
Direct Labour hours worked	48000 hours
Actual Wages rate per hour	Rs. 3.50

Q.10 Write short notes on any three : 15

(a) Purpose of Reconciliation of Cost and Financial Accounting.

(b) Operating Costing.

(c) ABC Analysis of Inventory.

(d) Labour Idle Time.