

تمام کلاسز کی حل شدہ مشقیں MrPakistani ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Allama Iqbal Open University Solved Assignments Spring 2026

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گھر بیٹھے حل شدہ مشقیں، گیس پیپرز، کتابیں اور خلاصے حاصل کرنے کے لیے رابطہ کریں واٹس ایپ نمبر: 03036940016

نوٹ: ہم طلبہ کے لیے جامع اور معیاری تعلیمی خدمات فراہم کرتے ہیں۔ ہماری خدمات میں علامہ اقبال اوپن یونیورسٹی کے حل شدہ اسائنمنٹس، گیس پیپرز، سابقہ پرچے، تازہ ملازمتوں کی معلومات، آن لائن سی وی تیار کرنا، ملازمت کے لیے درخواست دینا، یونیورسٹی داخلوں میں رہنمائی اور درخواست جمع کروانا شامل ہیں۔ اس کے علاوہ یونیورسٹی سے متعلق طلبہ کے ہر قسم کے تعلیمی اور رہنمائی کے کام میں مکمل تعاون فراہم کیا جاتا ہے تاکہ طلبہ کو ایک ہی جگہ پر تمام ضروری سہولیات میسر آسکیں۔



واٹس ایپ گروپ جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



واٹس ایپ چینل جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



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Assignment 2

Q.1. What is verification? Explain the importance of verification in audit and its basic techniques.

What is Verification?

Verification is done by the auditor to satisfy himself that the assets and liabilities shown on the balance sheet are correct. In verification, the auditor also checks the existence of the actual items and sees that the assets are actually held by the organization whose accounts he is auditing. While vouching establishes the bona fides and accuracy of transactions, verification deals with auditing the balances of ledger accounts.

The auditor has to certify under Section 255(3) of Companies Ordinance 1984 that the balance sheet and profit and loss account exhibit a true and correct view of the state of the company's financial position. This places responsibility upon the auditor to verify the items not only of the balance sheet but also of the profit and loss account.

Distinction between Vouching and Verification

Vouching means an examination of all original evidence such as invoices, statements, receipts, correspondence, minutes, contracts, etc., with a view to proving the accuracy of entries in the books of accounts and to ascertain that no transactions have been omitted from the books. Verification, on the other hand, is done by the auditor to satisfy himself that the assets and liabilities shown on the balance sheet are correct. In verification, the auditor also checks the existence of actual items.

Importance of Verification in Audit

1. **Legal Requirement:** The auditor has to certify that the balance sheet and profit and loss account exhibit a true and correct view of the company's financial position. This makes verification essential.
2. **Protection against Negligence:** To omit to verify the existence of assets or liabilities is to run the risk of being liable for damages due to negligence in the execution of work, as held in the case of London Oil Storage Company Limited vs. Sear Hasluck and Company (1904).



- Detection of Misappropriation:** If an auditor is negligent in performance of his duties, he will not be able to detect misappropriation of assets, inflation of profits, and falsification of the balance sheet.
- True Financial Position:** Overstatement or understatement of liabilities does not give a true and correct financial position. Verification ensures that the balance sheet shows the true state of affairs.
- Shareholder Protection:** Verification protects shareholders by ensuring that the assets shown on the balance sheet actually exist and are properly valued.

Basic Techniques of Verification

The following techniques are used by an auditor in the process of verification:

1. Physical Existence

Physical existence of assets may be verified through:

- Actual Inspection:** Physical verification of items through actual count, weighing, inspection, or measuring. This is limited to tangible assets like plant, machinery, equipment, inventory, and cash on hand.
- Confirmation through Documentary Evidence:** This technique is used when ascertainment of physical existence is either impossible or impracticable. Reference is made to documentary evidences and certified inventories from responsible officials. For example, warehouse receipts, bank statements, and banker's certificates.

2. Correct Valuation

The accuracy of both balance sheet and profit and loss account depends upon the accuracy of valuation of assets and liabilities. The auditor checks valuation of assets using various methods:

- Market value or realizable value
- Break-up or scrap value
- Replacement value
- Going concern basis (cost less depreciation for fixed assets)
- For current assets: historical cost or market price whichever is less

3. Ownership

The assets shown on the balance sheet should be the property of the client. The auditor verifies ownership by physically examining share certificates, obtaining certificates from banks for securities held in safe custody, inspecting title deeds for property, and obtaining confirmations from creditors for liabilities.



4. Proper Disclosure

All assets, liabilities, and shareholders' equity should be stated clearly and described fairly. The informative disclosure in financial statements must be adequate for users and must be fully self-explanatory through headings, classification of items, descriptive information, and footnotes.

5. Charge on Assets

The auditor should ascertain whether a particular asset is suffering from any charge such as mortgage, pledge, or hypothecation. Steps taken include obtaining a certificate from the management, examining the register of mortgages and charges maintained under section 125 of the Companies Ordinance 1984, and obtaining information directly from banks or financial institutions.

6. Proper Authorization

The auditor should examine relevant clauses of the memorandum and articles of association, resolutions of directors and shareholders, minutes of meetings for transactions relating to additions and deletions from fixed assets, and documentary evidence for proper authorization.



Q.2. What do you understand by events? Explain the events occurring after the balance sheet date.

Understanding of Events

Events occurring after the balance sheet date are those significant occurrences that take place between the balance sheet date and the date of the auditor's report. The auditor's report certifies that the balance sheet shows a true and correct view of the company's state of affairs at a particular date. However, certain events occur subsequently, and giving consideration to them may be of assistance in arriving at the appropriate amounts to be included in the balance sheet.

The Institute of Chartered Accountants in England and Wales has given recommendations that events known to have occurred after the balance sheet date should not normally be taken into account in preparing accounts unless they assist in forming an opinion as to the amount properly attributable to any item the amount of which was subject to uncertainty on that date, or they arise from legislation affecting items in the accounts.



Types of Events Occurring After the Balance Sheet Date

There are three types of events occurring after the balance sheet date to which an auditor has to pay special attention:

1. Events Requiring Adjustment in the Financial Statements

These events require adjustment in the financial statements to reflect subsequent changes. Examples include:

(a) Debtors: In the subsequent period, examination of accounts of debtors will reveal that certain debts have become uncollectible. This enables correct determination of provision for bad and doubtful debts.

(b) Stock-in-Trade: The subsequent period will show the amount realized from the sale of stock-in-trade. If a certain quantity of stock has been sold in the subsequent period at a price less than the cost price, stocks will be valued at the sale price according to the stock valuation method of cost or market whichever is lower.

(c) Liabilities: The exact amount of some liabilities is difficult to determine. Subsequent events may enable the auditor to evaluate the liability more accurately. A contingent liability can also develop into an actual liability, which should be provided for in the financial statements.

(d) Provision for Taxation: The amount of tax payable is determined by the Annual Finance Act/Ordinance, which may come out after the close of the accounting year. The auditor should calculate the provision for taxation correctly when the Finance Act is declared.

2. Events Not Requiring Adjustments in the Financial Statements

The second category consists of events that do not require any adjustments in the financial statements but have an effect on future statements. They are of great interest to readers. Examples include:

- Issue of debentures of large amount with restrictive conditions
- Merger with another company
- Huge losses by fire, flood, or other casualty

Such events require disclosure, which should be done by way of notes attached to the financial statements.

3. Events with No Accounting or Disclosure Implication



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The third category of subsequent events has no direct accounting implications. They do not require special attention of readers, and usually their disclosure is not made. The auditor should, however, weigh them carefully to decide whether they should be disclosed or not. Examples include:

- Changes in management
- Product changes
- Loss of important customer
- Strikes and unionism

Auditor's Work in Respect of Events Occurring After the Balance Sheet Date

The auditor should search for information about the client under audit, investigate it, and decide whether it needs any amendment in the financial statements, requires disclosure as a note to these statements, or should be ignored. If the auditor finds information of the first two types, he should try to take the client into confidence and explain the implication of the events on the accounts under audit. Normally the client would agree to amendment in the accounts or giving a note to them. If the client does not agree, the auditor can mention the point in his audit report and state the account about which he is not satisfied and in what respect.



Q.3. What do you know about verification of assets? Explain the verification of stocks with an assessment of internal control.

Verification of Assets

One of the most important duties of an auditor is the verification of various assets appearing on the balance sheet. Merely verification of the correctness of various items appearing on the balance sheet may not be sufficient; the auditor has to verify the existence of the assets also, whether through actual inspection or otherwise. The auditor also has to verify that all assets examined are free from any charge upon them which is not properly recorded in the books of the company.

Verification of assets guards against improper valuation of assets or the creation in the books of an asset which does not exist or which in fact never has existed. Verification of assets includes verification of existence and of the values at which they appear in the books.



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Verification of Stocks

Verification of the physical existence and the valuation of stocks and work in progress is of great importance because, unless it is accurate:

- The balance sheet will not give a true and correct view of the state of company's affairs
- Incorrect trading results will be shown
- The profit and loss account will not give a true and correct view of the results
- The profit may be deliberately manipulated
- Slow-moving, old, and obsolete stocks may accumulate

Auditor's Duty in Respect of Stocks

The auditor's approach to the verification of the existence and value of stock is to ascertain the procedures which the directors have instituted and to consider whether the internal controls designed to ensure that these procedures produce accurate results are satisfactory. He must then make such tests as he considers necessary to ascertain whether the system is being properly carried out and whether the results can be relied upon. Wherever practicable or legally required, these tests will include observation of stock-taking.

Auditor and Physical Stocktaking

Although normally it is not part of the auditor's duty to take stock, the application of auditing in depth has caused attention to be given to the physical aspect of stock control. The auditor or his representative should be present in person while the clients' staff is taking stock. He should check the computations and totals of the stock sheets. He should also test-check the counts by actual counting. In addition, he should obtain a certificate from the client or his authorized officer about the stock at the date of the balance sheet.

Cut-off Procedures

The auditor should ensure that cut-off procedures are properly operated by testing items of sales, sales returns, purchases, and purchases returns to ensure that items are excluded or included as necessary.

Auditing Procedures for Stocks

General Procedures:

- Obtain a copy of instructions to staff as to method of stock-taking and examine adequacy
- Ensure issue of stock sheets has been properly controlled where pre-numbered
- If final stock sheets are supplied, request originals and test them



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- If continuous stock records are maintained, test the stock sheets with the records
- Ensure that stock in transit is received after the closing date
- Examine stock sheets to ensure items other than stock are excluded

Valuation Procedures:

- Test prices shown at cost value with suppliers' invoices or other evidence
- Ascertain the method of valuation of any scrap or by-products
- Investigate slow-moving or obsolete stocks
- Investigate overall stock position as compared with previous year
- Obtain a stock certificate from the managing director of the company

Assessment of Internal Control in Respect of Stocks

The auditor should assess the effectiveness and reliability of internal control systems in respect of stocks by finding answers to the following questions:

A. General:

- Has a list of all stocks and stores been received or prepared and duly certified by a responsible official?
- Is stock efficiently handled as to storage and packing and properly safeguarded?
- Is a continuous or annual stock-taking maintained?
- Do all goods pass through stores or are some delivered direct to customers?

B. Documentation:

- Are goods only released on authorized requisitions?
- Are proper bin cards maintained in respect of all goods?
- Are stock records maintained by persons independent of those handling stores?
- Are control accounts maintained in respect of stocks, and are these compared and reconciled with warehouse records?

C. Work-in-Progress:

- Is an efficient system of costing in operation?
- Are costing figures reconciled with financial accounts?
- By what method are overheads charged to jobs?
- What system is operated to ensure that charges to works orders are properly allocated?

D. Stock-taking:



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- Is a responsible official in charge of stock-taking at each centre?
- Are detailed written instructions given to staff as to method?
- Are stock checkers independent of those maintaining the stores?
- Are specially printed and numbered stock sheets issued and checked?
- Are all stock sheets signed by those taking stock and countersigned by the official in charge?

E. Stock Valuation:

- Is stock valued on the basis of the lowest of cost, net realizable value, or replacement price?
- What is the method of calculating cost (FIFO, LIFO, or weighted average)?
- Are any stocks consistently valued below cost?
- From what sources are prices on stock sheets obtained? Are these independently checked?

Q.4. Define share and describe verification of share capital in detail.

Definition of Share

A share represents the interest of a shareholder in the company. Ordinary shareholders are the actual owners of the company, while preference shareholders have preferences in other matters. Shares may be issued at par, at discount, or at premium, and for consideration which may be cash or other than cash. Share capital represents the total amount of capital raised by the company through the issue of shares.

Verification of Share Capital

Objectives of Verification of Share Capital

The objectives behind verification of the share capital by the auditor are:

1. To verify the amounts received against issue of shares with the supporting documents
2. To confirm that all transactions were properly authorized
3. To check that all transactions have been properly recorded in the books of account and subsidiary records
4. To see that all legal formalities required in the matter have been fulfilled



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Steps Involved in Verification of Share Capital

The auditor adopts the following procedure in verification of share capital:

1. Examine the authorized share capital with Memorandum and Articles of Association of the company and permission from the Controller of Capital Issues, if required.
2. Examine Articles of Association of the company to know the rights attached to each type of shares.
3. Check directors' minute book to see that all allotments have been authorized.
4. Check the application and allotment letters with application and allotment book.
5. Check the shares allotted and the amounts payable on application and allotment into share ledger.
6. Check the amount received on application and allotment with bank statement, cashbook, share ledger, and application and allotment book.
7. Where allotments have not been made and application money has been returned, vouch repayment of cash with the application and allotment book.
8. Check that provision regarding minimum subscription has been complied with.
9. Check that statutory provisions and those of articles of association relating to underwriting commission and brokerage have been complied with.
10. Vouch journal entries relating to shares and check postings.
11. Check the balances of share ledger to see that its total agrees with the total amount of shares issued.
12. Check the amount received on calls with receipt book, cashbooks, and bank statements.
13. Check the balances of share-holders cash accounts in share ledger and see that these agree with the balances shown as outstanding on application and allotment accounts.
14. Where commission has been paid, check that legal requirements have been complied with.
15. Where shares have been issued for cash, check that the return of allotment has been filed with the registrar, and the money has not been used before the issue of allotment letters.
16. Check that the amount shown on the balance sheet is correct.
17. Check that the balance sheet has been drawn in accordance with the disclosure requirements contained in the Fourth Schedule of the Companies Ordinance 1984 for listed companies and in the Fifth Schedule for non-listed companies.

Issue of Shares for Consideration Other than Cash

The auditor should check the contract entered into between the company and the relevant party. The auditor should also check the minutes of the directors' meeting and shareholders' meeting and see that the contract is properly stamped. The journal entries should be vouched, and shares allotted should be checked into the register of members.

Issue of Bonus Shares

The auditor should:



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- Confirm that there is a provision in the Articles of Association for issue of bonus shares
- Verify that the limit of authorized capital has not been crossed
- Verify that a resolution has been passed by shareholders to increase authorized capital if needed
- See that provisions of law regarding issue of bonus shares out of undistributed profits have been followed
- Verify sufficient disclosure of bonus shares in financial statements

Issue of Shares at Premium

The auditor should verify that premium on issue of shares is shown separately in the balance sheet under the capital section, that the premium is not distributed to shareholders, and that the share premium account is used only for permitted purposes such as paying up un-issued shares as bonus shares, writing off preliminary expenses, or providing for premium payable on redemption.

Issue of Shares at Discount

The auditor should verify that:

- Shares issued at discount are of a class already issued
- The issue is authorized by a resolution passed in a general meeting and sanctioned by the court
- The maximum rate of discount does not exceed ten per cent of the face value
- At least one year has passed since the company was allowed to commence business
- Shares issued at discount are shown at their face value and not at discounted value

Forfeited Shares

The auditor should:

- Check circumstances in which forfeiture was allowed by Articles of Association
- Check that a director's resolution for forfeiting shares was passed
- Check entries in books of account for forfeiture
- Check that profit on re-issue of forfeited shares has been transferred to capital reserve account

Redeemable Preference Shares

The auditor should:

- Check the articles and prospectus as to terms and date of redemption
- Check minutes of directors' meeting for authorization of redemption
- Vouch entries in the book and cash payments to members
- Check that register of members has been amended



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Q.5. Define the profit & loss account and also explain the verification of income items and expenses.

Definition of Profit and Loss Account

The profit and loss account has three sections: (1) Trading Account, (2) Profit and Loss Account, and (3) Appropriation Account. In the case of a manufacturing concern, it has four sections: (1) Manufacturing Account, (2) Trading Account, (3) Profit and Loss Account, and (4) Appropriation Account.

During recent years, the profit and loss account has assumed greater importance than the balance sheet. Not only management but also creditors and investors attach more importance to the profit and loss account, as the income stream is lifeblood for a company. Factors contributing to its importance include high rates of income taxes, government economic policies, government purchases on a large scale, and shareholders' interest in fair returns by way of dividends.

Verification of Income Items

Audit Objectives in Verification of Revenues

The audit objectives in respect of revenue items appearing in profit and loss account are:

1. To verify the accounts by supporting documents
2. Only revenues for the period should be classed as revenues; revenues for other periods should be excluded
3. Classification of incomes should be appropriate and should be followed consistently
4. Clear distinction should be made between operating and non-operating incomes
5. Ascertainment that all incomes have been recorded

Overall Scrutiny of Sales

The auditor compares the figures of sales returns and allowances with figures of the previous period. Excessive returns and allowances may indicate shipments without customer orders, substandard merchandise, misstatement of inventory or debtors, or weakness in internal control.

The auditor should compare:



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- Sales with budgeted sales
- Sales with sales of corresponding period of the previous year
- Sales with cost data (giving margin of profit)
- Classification of sales by kinds of items sold, departments, territories, and salesmen

Dispatch of Goods on Consignment Basis

The auditor examines all consignment contracts, reports from consignees, and related dispatch documents. Unsold portions of consignments should be valued at cost plus proportionate relevant expenses. Goods on consignment should be recorded at cost price and not shown as sales. Confirmation from consignees should be obtained.

Hire-Purchase and Instalment Sales Income

While vouching amounts received under hire-purchase agreements, the amount of each instalment received is segregated into repayment of capital and interest. The interest is credited to interest income account. Arrear amounts pertaining to the period under review should be brought into account.

Interest Received, Commission Earned, Royalty, and Rent

These are traced against ledger accounts. The amounts for the period under audit are examined carefully. Figures for the current year are compared with those of the previous year, and any variance is investigated.

Goods Sent on Sales or Returns Basis

The auditor obtains a list of such items sent on approval to customers. They are not treated as sales unless approval from customers has been obtained. Such goods should be shown at cost on the balance sheet.

Sale of Fixed Assets

The auditor verifies that entries have been recorded in the ledger account and plant register. The depreciation account is checked to see that depreciation on sold machinery no longer exists in the books.

Verification of Expenses

Cost of Goods Sold



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- Charging excessive amount of depreciation
- Understatement of inventory or overstatement of cost of sales

The auditor compares the percentage of gross profit of the year under audit with that of the previous year. If there is any difference, it should be checked whether it is due to change in selling price or due to rise in the price of cost of sales. The auditor also checks proper classification of accounts and ensures that operating income does not include non-operating expenses.



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