

SUBJECT - AUDITING & ASSURANCE

LECTURE- 2

(NATURE,OBJECTIVE,AND SCOPE OF AUDIT)

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DETECTION OF FRAUD & ERRORS

The term fraud means the willful misrepresentation made with an intention of deceiving others. It is a deliberate mistake committed in the accounts with a view to get personal gain. In accounting, fraud means two things.

- a. Defalcation involving misappropriation of either cash or goods; and
- b. Fraudulent manipulation of accounts not involving defalcation.

FRAUD	1, Fraud through defalcation	A, misappropriation of cash
		B, misappropriation of Goods
	2, Manipulation of Accounts	A, Over statement of profit
		B, Under statement of profit

1. FRAUD THROUGH DEFALCATION.

Following are the methods of defalcation involving misappropriation of cash or goods

- 1 By misappropriating the receipt by not recording the same in the cashbook
- 2 By destroying the carbon copy or counter foil of the receipt and misappropriating the cash received
- 3 By entering lesser amount on the counterfoil and misappropriating the difference between money actually-received and the amount entered on the counterfoil of the receipt book

- 4 By not recording the receipt of sale of a casual nature for example sale of scrap, sale of old newspapers etc.**
- 5 By omitting to record cash donations received by non-profit making charitable institutions**
- 6 By misappropriating the cash received on discounting the bills receivable and showing them as bills outstanding on hand.**
- 7 By misappropriating cash received from debtors and concealing the same by giving artificial credit to the debtors in the form of bad debts, discount or sales return etc.**
- 8 By adopting the method of "teeming and lading" or "lapping process". Under this method cash received from one debtor is misappropriated and deficiency in that debtors account is made good when another payment is received from second debtor by crediting the second debtors account less by that amount. This process is carried out round the year.**
- 9 By suppressing the cash sales by not recording them or by treating the cash sales as credit sales.**
- 10 By misappropriating the sale proceeds of VPP sales or sales of goods on approval basis by treating the transaction as goods received or not approved.**
- 11 By under casting receipt side total of the cashbook**
- 12 By recording fictitious or bogus payments**
- 13 By recording more payments than actual amounts paid by altering the figures on the vouchers.**
- 14 By showing the same payment twice.**

- 15 By showing credit purchases as cash purchases and misappropriating the amount**
- 16 Recording personal expenses as business expenses**
- 17 By not recording discounts and allowances given by the creditors and misappropriating the amounts**
- 18 By overcasting the payment side total of the cashbook**
- 19 Recording fictitious and inflated purchases and misappropriating that amount.**
- 20 By suppressing the credit notes for returns and showing the full payment to creditors.**
- 21 By including the names of dummy workers or the workers who have? The job in the wage sheets and misappropriating the amount.**
- 22 By over casting the total of wages sheets and drawing that amount for misappropriation.**
- 23 By misappropriating the undisbursed wages.**