

FINAL -
NOV. 08 - ADV. AUDITING

Roll No.....12254.....

Total No. of Questions—8]

[Total No. of Printed Pages—4

Time Allowed—3 Hours

Maximum Marks—100

MLC

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer question nos. **1** and **2** and any **four** from the rest.

Marks

1. As a Statutory auditor, how would you deal with the following ?
 - (a) While finalising its accounts, a company does not provide for Income-tax payable under the provisions of the Income-tax Act, 1961. A note is however given that since adequate tax has been deducted at source, no additional tax is payable. 5
 - (b) A company receives a grant from the State Government as compensation for loss of stocks due to unseasonal floods. The entire grant received is credited to "Capital Reserve". 5
 - (c) A company which satisfies the conditions of a Small and Medium sized Company (SMC) as per Companies (Accounting Standards) Rules, 2006 has represented that it does not require to give disclosures required by AS-3 "Cash Flow Statements" and AS-18 "Related Party Disclosures" in its financial statements. 4
 - (d) A company which has presented its quarterly results for a limited review report, has represented that expenditure incurred on heavy repairs carried in that quarter are being spread over the entire year, since it would otherwise, distort the quarterly results. 4

MLC

P. T. O.

2. Comment on the following with reference to the Chartered Accountants Act, 1949 as amended by the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto :
- (a) Mr. P, Chartered Accountant, proprietor of M/s P & Co. requests the manager of a Bank branch to sanction him a loan for Rs. 10 lakhs. He also offers free services to the manager and the staff for filing Income-tax returns for 3 years. 5
- (b) M/s. ABC, a partnership firm carrying on business has complained to the Institute of Chartered Accountants of India (ICAI) that Mr. M, a Chartered Accountant has charged the firm excessive fees for a professional assignment. 5
- (c) Mr. A, a Chartered Accountant in practice has been appointed editor of a monthly journal which analyses performance of the Stock Market and Mutual Fund Schemes. 4
- (d) M/s. PQR, a firm of Chartered Accountants has been appointed Statutory Auditor of a company on terms whereby fees are payable on a progressive basis. Accordingly, the firm has been paid Rs. 50,000 as part of his audit fees, though the audit report is yet to be submitted. 4
3. Answer the following :
- (a) Auditor's liability to third parties in relation to issue of Prospectus. 8
- (b) What are the duties of an auditor regarding disqualification of directors under Section 274(1)(g) of the Companies Act, 1956 ? 8
4. Answer the following :
- (a) Discuss the reporting requirements under the Companies (Auditor's report) Order, 2003 where a company has defaulted in compliance of Section 58AA of the Companies Act, 1956 with regard to public deposits. 8
- (b) As per the directions under Section 619(3)(A) of the Companies Act, 1956 applicable to Insurance Companies, which are the points on which the Statutory Auditor has to report on in respect of System of Accounts ? 8

5. Answer the following :

- (a) Comment whether the following Companies can be classified as a Small and Medium Sized Company (SMC) as per the Companies (Accounting Standards) Rules, 2006 : 12
- (i) A Pvt Ltd, a subsidiary of a multinational company listed on London Stock Exchange. It has a turnover of Rs. 12 crores and borrowings of Rs. 5 crores.
- (ii) B Pvt. Ltd. has a turnover of Rs. 45 crores, other income of Rs. 7 crores and bank borrowings of Rs. 9 crores.
- (iii) C Ltd. has appointed Merchant bankers to prepare a Red-herring prospectus for the purpose of filing the same with Securities and Exchange Board of India.
- (b) What are the Financial indications to be considered by an auditor for evolution of the Going Concern assumption ? 4

6. Answer the following :

- (a) How are investments to be classified in the financial statements of a Bank ? 8
- (b) Discuss the reporting requirement in Form 3CD of Tax Audit Report under Section 44AB of the Income-tax Act, 1961 for the following : 8
- (i) Tax deducted at source.
- (ii) Expenditure incurred at clubs.

7. Answer the following :

- (a) What are the areas to be considered in an Environmental Audit ? 8
- (b) You have been asked by a company to compile financial statements for the purpose of obtaining loan from a Bank. Draft a report to be given to the Management for the same. 8

(4)

MLC

Marks

4×4=16

8. Write short notes on any **four** of the following :

- (a) Investor Protection and Education Fund.
- (b) Contingent liabilities in case of Banks.
- (c) Borrowing costs and Qualifying assets.
- (d) Permanent consolidation adjustments
- (e) Facultative reinsurance under Insurance Act, 1938.
- (f) Stages in Risk Based Internal Audit.

MLC

Roll No. 52107.....

Total No. of Questions—8]

Time Allowed—3 Hours

PCC. AUDITING
NOV-2008

[Total No. of Printed Pages—6

Maximum Marks—100

CRP

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Marks

1. State with reasons (in short) whether the following statements are True or False (Answer any **ten**) : 10×2
=20

- (i) Secret reserve strengthens Financial position, hence they are allowed.
- (ii) Capital profits realized in cash may be distributed as dividend, provided the articles do not prohibit, hence profit on reissue of Forfeited shares may be distributed as Dividend.
- (iii) AAS-11 is related to Audit Materiality.
- (iv) The Auditor of a Company is entitled to attend any General Meeting of the company as his duty.
- (v) An Auditor may be removed from Office before the expiry of his term, by the company in General Meeting.
- (vi) Audit Working Papers to be kept at least for 3 (three) years.
- (vii) AAS-6 has a purpose to Establish Standards to form procedures to be followed to have an understanding of the Accounting and Internal Control system.
- (viii) Management Certificate obtained by the Auditor is enough for verification of Inventories.
- (ix) The environment in which internal control operates has no relationship with the effectiveness of the Specific control procedure.

CRP

P. T. O.

- (x) When the Auditor uses more Professional Judgement, the Degree of Inherent risk is lower.
- (xi) "Auditor is not an Insurer".
- (xii) C.A. Mr. X is the Auditor of PQ Ltd. in which one of his relative is having substantial interest, whether Mr. X is qualified to be an Auditor ?
2. As an Auditor how would you react to the following situations/comments ?
- (a) In a company Fixed Assets have been revalued and there has been resulting surplus of Rs. 2,00,000, which is transferred to revaluation reserve. The Company has a Debit balance in Profit and Loss account Rs. 1,20,000 as accumulated brought forward losses. The company has adjusted this loss balance against Revaluation reserve. 8
- (b) A company has Rs. 60 lakh of paid up Capital and Rs. 3 crore of average Annual Turnover of past three years preceding the Financial year under Audit. The company does not have any Internal Audit system because the Management does not think it necessary. 6
- (c) The Central Government sanctioned Rs. 20 lakh as Grant to a Hospital for the purchase of certain equipments and paid Rs. 10 lakh as advance. The hospital took Rs. 10 lakh as income in the Profit and Loss account for the year. 6
3. (a) What are the basic principles which govern the Auditor's professional responsibilities while doing Audit ? 5
- (b) Discuss in brief AAS-10 "using the work of another Auditor". 5
4. (a) What points in relevance to AAS-3 should be kept in view while preparing an Audit Programme ? 6
- (b) In a CIS environment, what are the different Design and Procedural aspects, which are different from those found in Manual systems ? 4
5. (a) Discuss in brief the power of Company to purchase its own Securities. 5
- (b) Under what circumstances the retiring Auditor can not be reappointed ? 5
6. (a) What steps would you take in to consideration in Auditing the receipts from patients of a Hospital ? 6
- (b) Distinguish between Internal evidence and External evidence. 4

(3)

CRP

Marks

7. How would you vouch/verify the following? (answer any **two**) :

5+5=10

- (a) Insurance Claim.
- (b) Trade Marks and Copyrights.

OR

Preliminary Expenses.

- (c) Customs Duty.

8. Write short notes on the following (any **two**) :

5+5=10

- (a) Disclaimer of Opinion.
- (b) Payment of Interest out of Capital during construction.
- (c) Impairment of Assets.

OR

Joint Audit.

CRP

P. T. O.