

Note:-all questions are compulsory.

Marks:-100

Question 1

As an Auditor, comment on the following situations/statements:

- (a) *X Ltd. had a major break down in its plant in the month of February, 2006. In the month of March, 2006 it entered into an agreement with an engineering firm for the purpose of repairing its plant for a consideration of Rs. 180 lacs. The engineering firm started the repairing work in the month of April, 2006 and completed it in the same month. X Ltd. made the provision for said expenditure on repairs in its books of account for the financial year 2005-06 on the plea that the event of break down leading to repair expenditure had taken place in the financial year 2005-06, binding contract for repairs was entered into during the financial year 2005-06 and repair work was also completed before the financial statements were approved by the Board of Directors of the company.* (5 Marks)
- (b) *The management tells you that WIP is not valued since it is difficult to know the same in view of multiple processes involved and in any case opening and closing WIP would be more or less the same.* (4 Marks) (PE-II Nov 2006)

Question 2

Give your comments on the following:

- (a) *Mr. X, a Director of M/s KP Private Ltd., is also a Director of another company viz., M/s GP Private Ltd., which has not filed the annual accounts and annual return for last three years 2002-03 to 2004-05. Mr. X is of the opinion that he is not disqualified u/s 274(1)(g) of the Companies Act, 1956, and auditor should not mention disqualification remark in his audit report.* (5 Marks)
- (b) *Mr. Aditya, a practising chartered accountant is appointed as a "Tax Consultant" of ABC Ltd., in which his father Mr. Singhvi is the Managing Director.* (4 Marks)
- (c) *You have been appointed the sole auditor of a company where you were one of the joint auditors for the immediately preceding year and the said joint auditors is not re-appointed.* (4 Marks)
- (d) *No Annual General Meeting (AGM) was held for the year ended 31st March, 2005, in XYZ Ltd., Ninu is the auditor for the previous year, whether she is continuing to hold office for current year or not.* (3 Marks) (PE-II May 2006)

Question 3

While conducting the audit of accounts of a manufacturing company, you discover that the rate of Gross Profit on Sales has sharply decreased in comparison to the previous year. State the steps you would take to satisfy yourself. (12 Marks) (PE-II Nov 2006)

Question 4

Write a short note on - Statutory Report of a Public Company under Section 165(4).

(4 Marks) (PE-II May 2006)

Question 5

Give your comments on the following:

The Articles of Association of ABC Ltd. do not authorise the company to buy back its own shares. However, a special resolution has been passed in general meeting of the company authorising the buy-back. The Directors of the company are of the opinion that even without authority in the Articles of Association the buy-back is possible due to special resolution passed in the general meeting authorizing the buy-back. (4 Marks) PE-II May 2007)

Question 6

Write short notes on the following:

(a) Current Investments

(b) First in First out (FIFO) method (4 × 2 = 8 Marks) (PE-II Nov 2006)

Question 7

(a) Managing Director of PQR Ltd. himself wants to appoint Shri Ganpati, a practicing Chartered Accountant, as first auditor of the company. Comment on the proposed action of the Managing Director. (4 Marks)

(b) PBS & Associates, a firm of Chartered Accountants, has three partners P, B and S. The firm is already having audit of 60 companies, which includes 2 branch audits of a company. The firm is offered 3 company audits, out of which one is a private company, other is a foreign company and the third one is a public company. Decide and advise whether PBS & Associates will exceed the ceiling prescribed under Section 224(1B) by accepting the above audit assignments? (4 Marks) (PE-II Nov 2006)

Question 8

Answer the following:

Board of Directors of Natraj Ltd. wants to transfer an amount of Rs.31.50 lacs lying in unpaid dividend account to their Profit and Loss account on the plea that it is 3 years old and no shareholder is expected to turn up and claim the same.(4 Marks)(PE-II Nov 2008)

Question 9

As an auditor, comment on the following :

- (a) You are a Principal Auditor of Sri Company Limited which has three branches the accounts of which are subject to audit by qualified branch auditors. One of the branch auditors qualified his report for non-provision of doubtful debts which he considered to be material for the company as a whole. Subsequent to their reporting, but before you could sign the audit report on the accounts of the company as a whole, the management informed you that the debt under the subject-matter of qualification in Branch Auditor's report had been fully recovered.
(5 Marks)*
- (b) A Ltd. is a holding company of B Ltd. B Ltd. is going to start a new project estimated to cost Rs. 20 crores. For this A Ltd. made an investment of Rs. 10 crores in the shares of B Ltd. by borrowing the same from financial institution @10% p.a. As on 31st March, 2005 the project was not completed. The Directors of A Ltd. want to capitalize the interest upto 31st March, 2005 on borrowings amounting to Rs. 1 crore and add it to the cost of investments.
(5 Marks)*
- (c) A contractor entered into a contract for building roads for Rs. 2 crores. After completing 60% of the contract he came to know that the cost of completing the contract would be Rs. 2.40 crores. The accountant transferred Rs 0.24 crores i.e., 60% of total loss of Rs. 0.40 crores to Profit and Loss account in the current year.
(5 Marks)*
- (d) Finished goods costing worth Rs. 10 lacs were damaged due to floods in July, 2004. These goods were included in the closing stock as on March 31, 2005 at an estimated realisable value of Rs. 4 lacs. These goods, ultimately, could be sold for Rs. 3 lacs only in the accounting year 2005-06. The difference of Rs. 1 lac was debited to prior period expenditure in the accounting year 2005-06.*

(5 Marks) (PE-II May 2007)

Question 10

Explain the scope paragraph of auditors Report. (8 Marks)(PE-II Nov 2006)

Question 11

How will you verify/vouch the following?

- (a) Loss of stock by theft.*
- (b) Stock lying with subcontractor for fabrication.*
- (c) Sale of empties.*
- (d) Expenditure for advertisement in newspaper. (4 x 4 = 8 Marks) (PE-II May 2007)*